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NATIONAL BUDGET

HEARINGS

BEFORE

THE COMMITTEE ON CONSIDERATION OF A NATIONAL BUDGET UNITED STATES SENATE

SIXTY-SIXTH CONGRESS.

SECOND SESSION

ON

H. R. 9783

A BILL TO PROVIDE A NATIONAL BUDGET SYSTEM AND AN INDEPENDENT AUDIT OF GOVERNMENT ACCOUNTS, AND FOR OTHER PURPOSES

PART 1

Printed for the use of the Committee on National Budget

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COMMITTEE ON CONSIDERATION OF A NATIONAL BUDGET.

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CONTENTS.

Statement of—	Page.
Lowden, Hon. Frank O., governor of Illinois	8
Pratt, John T., chairman national budget committee	29
Willoughby, W. F., director Institute for Government Research	35
Belcher, Robert W., representing the Chamber of Commerce of the United States	41
Fitzgerald, Hon. John J., New York	51
Allen, William H., director Institute for Public Service	63
Butler, Nicholas Murray, president Columbia University	71
Lill, Thomas R., New York	89
Oakey, Francis, certified accountant, New York	168
Ross, Adam A., of Lybrant, Ross Bros. & Montgomery, Philadelphia	177
Mills, Ogden L., representing the National Tax Association, New York	183

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NATIONAL BUDGET.

MONDAY, DECEMBER 15, 1919.

UNITED STATES SENATE,
COMMITTEE ON A NATIONAL BUDGET,
Washington, D. C.

The committee met pursuant to call in room at 10.30 o'clock a. m., Senator Medill McCormick presiding.

The CHAIRMAN. Will the committee come to order? The other members of the committee have sent word that they will be present in the course of a few minutes. Gov. Lowden and Director of Finance Wright, of Illinois, both are here. May I ask what the pleasure of the committee is as regards hearing these gentlemen?

(The committee proceeded to consider the bill (H. R. 9783) which is here printed in full as follows:)

H. R. 9783, an act to provide a national budget system and an independent audit of Government accounts, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) there is created in the office of the the President a bureau of the budget. There shall be in the bureau a director and an assistant director, who shall be appointed by the President and receive salaries of $10,000 and $7,500 a year, respectively. The assistant director shall perform such duties as the director may designate, and during the absence or incapacity of the director or during a vacancy in the office of director he shall act as director.

(b) The director, with the approval of the President, shall appoint and fix the compensation of such employees and make such expenditures for rent, printing, telegrams, telephone, law books, books of reference. periodicals, stationery, furniture, office equipment, other supplies, and necessary expenses of the office as may from time to time be provided for by Congress. All employees in the bureau whose compensation is less than $5,000 a year shall be appointed from lists of eligibles furnished by the Civil Service Commission and in accordance with the civil-service laws and regulations.

(c) No person appointed by the director shall be paid a salary in excess of $5,000 a year, and not more than three persons appointed by him shall be paid a salary at that rate.

SEC. 2. That (a) the bureau of the budget shall assist the President in the performance of the powers conferred upon him by this act. The bureau shall also make a careful inevstigation of all provisions of law dealing in any way with the preparation and transmission to Congress of estimates, and the preparation and submission to Congress of financial data of any character, in order to determine what changes should be made in such provisions of law to the end that all requirements in respect to the reporting to Congress of financial data and estimates shall be brought together in one place, coordinated, revised. and brought into harmony with the alternative budget which the President is by section 6 required to submit to Congress. The results of such investigation shall be embodied in a report or reports to the President, who may transmit

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to Congress such report or reports, or any part thereof, with such recommendations regarding the action which in his opinion should be taken upon the matters covered by such reports.

(b) All departments, bureaus, boards, commissions, offices, agencies, or other establishments of the Government, except the legislative branch and the Supreme Court, shall furnish to the President such information regarding the powers, duties, activities, organizations, financial transactions, and methods of business of their respective offices as he may from time to time require of them, and the Director of the Bureau of the Budget, or any of his assistants or employees, when duly authorized by the President shall, for the purpose of securing such information, have access to and the right to examine any books, documents, papers, or records of any such department, bureau, board, commission, office, agency, or other establishment.

SEC. 3. That on a date to be fixed by the President the heads of the several of business of their respective officers as he may from time to time require of authorized to make estimates for the public service, shall annually submit their estimates to the President instead of to the Secretary of the Treasury, and at the same time the Secretary of the Treasury shall submit to the President his estimates of the needs of his department, and for the permanent appropriations not otherwise estimated for, and such estimates of the public revenues and the condition of the Treasury as the President may direct.

SEC. 4. That the President shall transmit to Congress on the first day of each regular session after the calendar year 1919 a document to be known as The Budget, which document shall contain balanced statements of the revenues and expenditures of the Government for the preceding fiscal year and of the resources and liabilities of the Treasury at the close of the year, his estimates of the revenues and expenditures of the Government for the current fiscal year and of the resources and liabilities of the Treasury at the close of the year, his estimates of the revenue and expenditure needs of the Government for the ensuing fiscal year, and how, in his opinion, these needs should be met. The estimates of expenditures for the legislative branch of the Government and the Supreme Court shall be those submitted to the President. The President shall transmit with such budget such further data regarding the financial affairs of the Government and such recommendations in relation thereto as he deems proper.

SEC. 5. That, except as otherwise provided in this act, the statutes governing the contents, order, and arrangement of the estimates of appropriations and receipts, and the notes and other data submitted therewith, shall apply to the estimates submitted to the President under section 3, and to the estimates for the expenditure needs of the Government when transmitted by the President under section 4.

SEC. 6. That the President, in addition to the budget herein required to be transmitted, shall transmit at the same time and for the service of the fiscal year ending June 30, 1922, only, an alternative budget prepared in such form and according to such system of classification and itemization as is, in his opinion, most appropriate, with such explanatory notes and tables as may be necessary, to show where, in such budget, the various items embraced in the budget provided for in section 4 are contained. The alternative budget shall also make known the essential facts regarding the condition of the Treasury, revenues, and expenditures, appropriations, and what, in the opinion of the President, are the revenues and expenditure needs of the Government for the ensuing fiscal year, and how these needs should be met.

SEC. 7. That after June 30, 1920, no estimate or request for any appropriation, and no recommendation as to how the revenue needs of the Government should be met, shall be submitted to Congress by any officer of the executive branch of the Government except the President, unless at the request of either House of Congress.

SEC. 8. That after June 30, 1920, special and additional estimates may be transmitted by the President to provide (a) for the expenditures under any laws passed since the transmission of the regular estimates contained in the budget and (b) for appropriations which, in his judgment, are necessary for the public service, and he shall accompany such estimates with a statement of the reasons therefor.

SEC. 9. That there is created a department to be known as the Accounting Department, which shall be an establishment of the Government independent of the executive departments and under the control and direction of the Comptroller General of the United States. The offices of Comptroller of the Treas-

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ury and Assistant Comptroller of the Treasury are abolished, to take effect July 1, 1920. All other officers and employees of the Office of the Comptroller of the Treasury shall become officers and employees in the Accounting Department at their grades and salaries on July 1, 1920, and all books, records, documents, paper, furniture, office equipment, and other property of the Office of the Comptroller of the Treasury shall become the property of the Accounting Department.

There shall be in the Accounting Department a Comptroller General of the United States and an Assistant Comptroller General of the United States, who shall be appointed by the President with the advice and consent of the Senate, and shall receive salaries of $10,000 and 7,500 a year, respectively. The Assistant Comptroller General shall perform such duties as may be assigned to him by the Comptroller General, and during the absence or incapacity of the Comptroller General, or during a vacancy in that office, shall act as Comptroller General. The Comptroller General and the Assistant Comptroller General shall hold office during good behavior, but may be removed at any time by concurrent resolution of Congress after notice and hearing, when, in their judgment, the Comptroller General or Assistant Comptroller General has been inefficient, or guilty of neglect of duty, or of malfeasance in office, or of any felony or conduct involving moral turpitude, and for no other cause and in no other manner except by impeachment.

Any Comptroller General or Assistant Comptroller General removed in the manner herein provided shall be ineligible for reappointment to that office.

When a Comptroller General or Assistant Comptroller General attains the age of seventy years, he shall be retired from his office.

The provisions of this act relating to the Accounting Department shall be effective on July 1, 1920.

SEC. 10. That all powers and duties now conferred or imposed by law upon the Comptroller of the Treasury or upon the Auditor for the Treasury Department, the Auditor for the War Department, the Auditor for the Interior Department, the Auditor for the Navy Department, the Auditor for the State and Other Departments, or the Auditor for the Post Office Department shall, so far as not inconsistent with this act, be vested in and imposed upon the Accounting Department and be exercised without direction from any other officer, and the balances certified by the Comptroller General shall be final and conclusive upon the executive branch of the Government. The revision by the Comptroller General of settlements made by the six auditors referred to in this section shall be discontinued, except as to settlements made before July 1, 1920.

Section 236 of the Revised Statutes is hereby amended to read as follows:

"SEC. 236. All claims and demands whatever by the United States or against them, and all accounts whatever in which the United States are concerned, either as debtors or creditors, shall be settled and adjusted in the Accounting Department."

SEC. 11. That the offices of the six auditors enumerated in section 10 shall be abolished, to take effect July 1, 1920, but the then incumbents of those offices shall be transferred, at their present salaries, to become officers of the Accounting Department. All other officers and employees of these offices shall become officers and employees in the Accounting Department at their grades and salaries on July 1, 1920. All books, records, documents, papers, furniture, office equipment, and other property of these offices shall become the property of the Accounting Department. The Accounting Department shall occupy the rooms now occupied by the Office of the Comptroller of the Treasury and the six auditors referred to in section 10 until otherwise provided.

SEC. 12. That the Comptroller General shall appoint, remove, and fix the compensation of such officers and employees in the department as may from time to time be provided for by Congress, and perform all other duties of a head of an independent Government establishment. All such appointments, except to positions carrying a salary of $5,000 a year, shall be made from lists of eligibles furnished by the Civil Service Commission, and in accordance with the civil-service laws and regulations. No person appointed by the Comptroller General shall be paid a salary in excess of $5,000 a year, and not more than three persons appointed by him shall be paid a salary at that rate. Until March 5, 1921, no person who at the time of the passage of this act holds office as one of the six auditors referred to in section 10, and who in pursuance of section 11 is transferred to the Accounting Department, shall be removed from office or have his

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compensation reduced, except for cause. All officers and employees of the department, whether transferred to the department in pursuance of section 11 or appointed by the Comptroller General, shall perform such duties as may be assigned to them by the Comptroller General. The Comptroller General shall make such rules and regulations as may be necessary for carrying on the work of the department.

SEC. 13. That the Comptroller General shall investigate, at the seat of Government or elsewhere, all matters relating to the receipt and disbursement of public funds, and shall make to Congress, at the beginning of each regular session, a report in writing of the work of the Accounting Department, containing recommendations concerning the legislation he may deem necessary to facilitate the prompt and accurate rendition and settlement of accounts and concerning such other matters relating to the receipt and disbursement of public funds as he may think advisable. In such regular report, or in special reports at any time when Congress is in session, he shall make recommendations looking to greater economy or efficiency in public expenditures. He shall make such investigations and reports as shall be ordered by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures. The Comptroller General shall also, at the request of any such committee, direct assistants from his office to furnish the committee such aid and information as the committee may request. The Comptroller General shall specially report to the Congress every expenditure or contract made by any head of a department in any year in excess of the appropriation to such department and in violation of law.

All departments, bureaus, boards, commissions, offices, agencies, or other establishments of the Government, except the legislative branch and the Supreme Court, shall furnish to the Comptroller General such information regarding the powers, duties, activities, organizations, financial transactions, and methods of business of their respective offices as he may from time to time require of them; and the Comptroller General, or any of his assistants or employees when duly authorized by him, shall, for the purpose of securing such information, have access to and the right to examine any books, documents, papers, or records of any such department, bureau, board, commission, office, agency, or other establishment. The authority contained in this paragraph shall not be applicable to expenditures made under the provisions of section 291 of the Revised Statutes of the United States.

SEC. 14. That the Civil Service Commission shall establish an eligible register for accountants for the Accounting Department, and the examinations of applicants for entrance upon such register shall be based upon questions approved by the Comptroller General.

SEC. 15. That this act may be cited as the budget and audit act of 1919.

Senator SMOOT. Mr. Chairman, I think as long as Gov. Lowden is present, that the committee had better hear him first and see what he has to say in reference to not only the budget legislation that is before the committee, but any other suggestions he may offer.

The CHAIRMAN. If there be no objection, Gov. Lowden, will you proceed? Governor, you understand that the House passed a bill looking to the creation of a budget, and a similar bill has been introduced in the Senate. Two measures are before the committee which have for their purpose the devising of a plan for a national budget system, and it is because of your experience in Illinois that I asked you to be good enough to come before the committee and give us the benefit of your experience. I think, if you will go ahead and speak of it in your own way, that will be most satisfactory.

STATEMENT OF HON. FRANK O. LOWDEN, GOVERNOR OF ILLINOIS.

Gov. LOWDEN. As perhaps some of you gentlemen know, we reorganized completely the machinery of government in Illinois in the early part of 1917. We had this situation, which is not uncommon in the country: Illinois, like other States, had been taking on

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new functions from time to time, and as these new functions had been taken on new bodies were created to discharge the functions. Sometimes it would be a board, sometimes an individual, and sometimes a commission.

This had gone on until we had, as we found upon a survey of the activities of the State, something over 125 independent and uncorrelated agencies of government, composed of boards, commissions, and individuals, as I have said. We went to work upon this situation and grouped these various 125 or more independent agencies into what we conceived to be logical groups, forming 9. We found that every one of them was properly under some one of the nine heads.

The CHAIRMAN. You consolidated and coordinated the existing machinery?

Gov. LOWDEN. Yes. Then we abolished these 125 boards, commissions, and officers and created 9 departments of government to take over the activities of the different bodies. Among those departments we created what we called the department of finance. I may say that at the head of each of these departments was placed an individual rather than a board or commission, on the theory that it is individuals, after all, who execute, and not bodies of men, and so there was thus created a department of finance with a director at its head. This department was, first, to exercise general supervision over the fiscal affairs of the State. It had power to provide for a uniform system of bookkeeping, and for various reports at stated times. It was given the power to approve or disapprove vouchers, and while we have a State elective auditor for the protection of the executive, it was given certain auditing powers.

Generally, as I say, it exercised supervision over all the fiscal and financial affairs of the State, and was the representative of the governor to that extent. It also was required to prepare a budget. Machinery was given to the department simple enough for making a budget. The theory of the department was that to effectively prepare a budget the officer who was in charge of it must himself during the preceding year have been in constant touch with the receipts and expenditures of the government so that he might have some sort of intelligent idea of his own when he received estimates from other departments, with their bureaus and divisions, as to whether or not those expenditures were necessary and were justified.

Senator SMOOT. What power was he given to enforce his decision as to whether they were excessive or not?

Gov. LOWDEN. Under the power to approve or disapprove all vouchers, with other general powers that I mentioned a moment ago. A system was put into effect by which, if any other department wished to make an expenditure beyond a certain small amount for the purchase of something that department was required to first make a requisition which had to have the approval of the department of finance.

Of course, if there were no question of its legality, but only a question as to the wisdom of the expenditure, if there were any disagreement between the head of the other department and the head of the department of finance, of course that was a question for me to determine, and it would come to me as a question of policy.

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The CHAIRMAN. The director of finance served, then, as a check upon expenditures of that character?

Gov. LOWDEN. Yes. In other words, he was the eye of the governor, so far as the expenditures generally were concerned. Of course, if there were, as I said a moment ago, a difference of opinion as to the wisdom of the expenditure, there being no question as to its legality or regularity in any way, I would settle that difference myself.

Senator JONES. You mean you, as governor?

Gov. LOWDEN. I, as governor; yes.

The CHAIRMAN. Let me ask you on that point, Governor, if the director of finance challenged the wisdom of an authorized expenditure did the question invariably go to you, or in some instances did the head of the other department acquiesce in the judgment of the director of finance?

Gov. LOWDEN. It very seldom came to me. Usually the heads of the departments, after taking it up and threshing it out, would agree. Of course, in practice, the expenditures are made by the division chiefs, or the subordinate officials in a department, and the approval of the head of that particular department is more or less formal.

Now, the director of finance, being chargeable with the duty of watching expenditures, that being his chief function, when he believed that some division chief or bureau chief was spending, even though the money were authorized, more money than was needed, and he would decline the requisition, that would bring the question up between the heads of the two departments, who nearly always have agreed, in practice. Once in a while, very rarely, however, there has been a difference of opinion, in which event, where it becomes a question of policy, the matter comes to my attention, and I decide it as governor.

The CHAIRMAN. Now, on that point, let me ask another question. In the preparation of the estimates I am sure the committee will be interested to know what powers of revision of the departments' estimates are exercised by the director of finance. What power has the director of finance to go on and enforce a reduction of those estimates before the governor sends them to the legislature?

Gov. LOWDEN. You are coming now to the question of making up the budget.

The CHAIRMAN. Yes. Am I anticipating what you were going to say?

Gov. LOWDEN. No; that is quite right. He has full power to reduce, alter, or change in any way, and again, if the head of the other department disagrees finally with the head of the department of finance, that question, of course, comes to the governor for final arbitration, but again, very often there may not be any disagreement. In practice—and this is the thing I can not emphasize too strongly—the head of another department, say a spending department, is engaged all the while upon the activities of his department. It is not his chief business to watch expenditures. He is thinking about the administration of the duties of his office, and they all require expenditures of money. He, having his mind fixed upon the broad questions of policy, of administration, does not not can he exercise supervision over the estimates made by his division chiefs and his bureau

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chiefs that some other independent department of the Government, not a spending department, can and does exercise.

So that when the subordinate officers—and it is the subordinate officers who actually spend the money—submitted their estimates, and those estimates went through the head of the department, after the head of the department checked them up as well as he could they would go to the finance department as the estimate to be considered in the making up of the budget, and the finance department, because of the experience that it had obtained during the year before, or two years in our case, because we make appropriations for two years, Senator, in Illinois, because of the experience it had had in the auditing, the approval, and examination of these accounts, and the investigation that the director had made himself under an authority he has, where he believed business methods were not being applied, would have a much more intimate knowledge of the needs of a bureau or division chief than the head of that department would have himself.

Then, upon conference between the head of that department and the head of the department of finance, in most cases there would be an agreement as to what was required. Occasionally, where there was a difference of policy, that would be submitted to me, and I, of course, as governor, had to decide as between them.

Senator LENROOT. Then, do I understand that under the law the final authority is not vested in the director of finance to revise, approve or disapprove, but that final authority is vested in the governor?

Gov. LOWDEN. Yes.

The CHAIRMAN. What is the degree of authority, then, which the director of finance exercises? Does he exercise that authority subject to review by the governor?

Gov. LOWDEN. Yes.

The CHAIRMAN. In practice, what proportion, let us say, of the cases in which he has reduced estimates are repealed by the governor?

Gov. LOWDEN. I could not state in percentage, Senator McCormick.

The CHAIRMAN. Is it large or small?

Gov. LOWDEN. Very small, for the reason that I tried to give a moment ago, that after the whole thing was thrashed out the two heads of the departments would be in perfect accord as to what was necessary.

The CHAIRMAN. Has this system which confers, in practice if not in law, such authority on the director of finance tended to prejudice the good relations between the head of the finance department of the State and his colleagues in your cabinet at the head of the other departments?

Gov. LOWDEN. It has not, so far as I have been able to discover.

Senator EDGE. I do not want to interrupt your thought, but I just want to ask one question. I did not have the benefit of hearing the beginning of the governor's testimony. Do you favor what is known as an executive budget under the general control of the head of the Government, the governor or the President, or that delegated to some branch of the Government? There is quite a distinction between the two types of a budget, one, generally, the gover-

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nor or Chief Executive officer overseeing and generally directing through his commission or such authority as he may have associated with him, and the other the practical responsibility delegated to a director of finance or a certain department of the Government.

Gov. LOWDEN. Well, it would be an executive budget in either case, would it not, Senator?

Senator EDGE. No, I would not consider it an executive budget if a department of the State or a department of the Federal Government was delegated with authority to practically prune the requests, and finally turn them over to Congress. I would not consider it an executive budget in that case.

Gov. LOWDEN. In either case it is the executive department that formulates the budget, and in either case the chief executive is responsible for it. I understand an executive budget to mean any budget which is initiated by the executive department of the Government, as distinguished from the legislative.

The CHAIRMAN. Whether through the chief of State or through his agent, the director of finance?

Gov. LOWDEN. Yes; because he always acts through a representative.

Senator EDGE. Nominally, yes; but there is quite a distinction, I think, especially in the State operation. I can well conceive the great difficulty under the National Government because of the very much larger scope of responsibility, but in a State, where you have had experience and I personally have had a similar experience in New Jersey, I consider that type of budget an executive budget where the governor practically presides over the budget commission, as I did in New Jersey, so he is directly associated with it. We can not do that under the Federal Government.

Gov. LOWDEN. I should say that an executive budget is a budget for the initiation of which the executive is finally responsible. Whether he attends all the hearings himself, which would be impracticable under the Federal Government, or whether it is through a bureau, or whether it is through a Cabinet officer, for instance, according to the two plans that have been suggested, it would be equally an executive budget, according to my understanding.

Senator EDGE. If he finally transmitted it to the Congress?

Gov. LOWDEN. Yes.

Senator EDGE. I am glad to have your views from that standpoint.

Senator JONES. I would just like to have made a little more clear what is evidently in the mind of the Senator from New Jersey. If I was able to get the point it was this, whether or not the chief executive of the State or the Chief Executive of the National Government should assume full responsibility for the budget or delegate that to some department of the executive branch of the Government?

Senator EDGE. Of course I am here more to hear the views of Gov. Lowden, but personally, to make my own position clear, inasmuch as I have announced it, from my own modest experience within Stat lines, and, of course, that unit is so small as compared to the Federa Government that I realize its impracticability when applied here, bu in perfecting a budget for the Government I feel that the Chief Ex ecutive Officer, the President, should be, as near as it is possible o practical for him to be, the head of the budget.

In other words, he is the head of the business of the Governme just as the governor is administering the business of the State.

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puts him close to the activities of every department. It places him in a position to discuss the needs of a department, through his messages and in other ways, and it really gives him a general layout of the business of the country.

I understand it is impossible for the President himself personally to actually suggest appropriations, etc., but the budget commission, working with him, through his appointment, perhaps having been appointed by him, discovers overlapping and discovers where many responsibilities of a cognate character are being handled by 10 or 15 separate divisions, and those consolidations are made, and the President should be in touch with it just as much as the governor of the State.

The problem is so much larger in the Federal Government that I am not prepared to say that the suggestion of Gov. Lowden is not a proper one, to submit it to a department of the Government and to have it finally transmitted, and the President perhaps individually taking as close an interest as possible in the actual budget hearings, as we term them, and then, being satisfied with the final results, transmitting it to Congress. He must have some agency to do the work for him. Perhaps the Treasury Department could do it just as well as a budget commission appointed by him, but at first glance, I rather prefer the latter.

The CHAIRMAN. May I ask the governor to speak on that point, and comment on Senator Edge's views?

Gov. LOWDEN. I am very glad Senator Edge has brought this out. Of course, we know that the President must act with reference to making the budget through somebody else. He can not do it himself. Therefore the question is, Through what agency? Should it be a commission, as Senator Edge suggested?

The CHAIRMAN. Let me interrupt, Governor. The two types of budget preparation are exemplified by the two different bills before the committee. One provides for a bureau on the budget in the office of the President. The other provides for a bureau on the budget in the Treasury, divesting the Treasury of all its nongermane functions, so that it would correspond more or less to your department of finance in Illinois.

Senator EDGE. I would like very much to have you continue what you started to say, from your viewpoint.

Gov. LOWDEN. So the question is through what agency will it be most effectively done. I appeared before the House committee, as some of you gentlemen know. I do not know that anyone is supposed to read what I said at that time. I remember that when I was here you did not always read all the testimony that was given before the various committees. But at that time I took the position that if the Treasury Department were divested of these bureaus and divisions which really have no relation to the fiscal affairs of the Government, and the Treasury Department was made purely a financial department, and the proper machinery were created within that department for a budget, that, in my opinion, the thing would function better through the Treasury Department than it would through a bureau.

Senator EDGE. In other words, they would become a budget commission?

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Gov. LOWDEN. They would become really the financial arm of the Government. They would have to do with the raising of revenue, and they would have to do with expenditures. The reasons that I stated at that time, briefly, were that if an independent bureau or commission were created it would not have the rank of a Cabinet officer. It would not have the facilities to get into that intimate relation in a perfectly easy, natural way, with the other departments that the Treasury Department would have, assuming now that the Treasury Department were made really a financial department and divested of all these spending bureaus.

Senator EDGE. You feel that it would be necessary to divest it; otherwise it would be more or less in competition with the other departments and still in a way controlling the finances of the other departments?

Gov. LOWDEN. Yes. Why should it have the Coast Guard? Why should it have the——

The CHAIRMAN. The Public Health Service?

Gov. LOWDEN. Public buildings, Public Health Service, and that sort of thing?

Senator JONES. Your bill takes care of that?

Gov. LOWDEN. They have nothing to do with it.

The CHAIRMAN. I want to say, that, yielding to the suggestion of Secretary Glass, in this purely tentative bill, I left the Coast Guard under the Treasury. During the next year or two he foresees duties for the Coast Guard in connection with the duties of the Treasury, and for that reason asked especially that it be not take out at this time, but otherwise I have taken everything out of the Treasury which was nongermane.

Gov. LOWDEN. In practice, if you have a bureau, and the bureau goes into these various departments, of course, they will not agree, in the first instance, in many cases. You know that these independent agencies of government, such as bureaus or commissions, that are not under the direct supervision of some department of the Government get neglected in practice. They are beyond the sight of the real activities of government.

Of course, the President would have the power with the bureau to himself to take up and adjust all those differences, supporting his bureau, but the President would not have the time to do that in any very large number of cases in any department, and it seems to me that the result would be, in practice, that gradually your independent bureau would be more and more neglected and would receive less actual attention from the other departments, and would not have the efficiency that a genuine important department of the Government, with its head sitting at the Cabinet table, would have.

For instance, as you know, Gov. Edge, you and I have had very modest executive experience as compared with the President of the United States, and, in practice, if every activity of government can not directly be assigned by the Chief Executive to some department of Government to at least take the initiative and keep the thing alive, keep it moving, it is very likely, in the multiplicity of duties, to be neglected, and if the President is going to have duties thrown upon him which do not come through the head of some one of the real departments of the Government, the thing inevitably is not going to

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have the attention it would have if it came through the head of one of the departments of the Government, with a Cabinet officer sitting at the Cabinet table, at the head of the department, it seems to me.

Senator JONES. I think at this point I might get clear, at least in my own mind, what I was thinking about a few moments ago in my query to Senator Edge. There is no question in your mind, as I understand it, Governor, but what the Chief Executive should be the responsible authority to submit the budget?

Gov. LOWDEN. Absolutely not.

Senator JONES. And the question as to what assistance he should have and what organization to furnish that assistance is the only question for discussion, is it not, in your opinion?

Gov. LOWDEN. Absolutely. I think, of course, that the President must be responsible for the budget. Whether through the Treasury Department or an independent bureau, of course, is an entirely different question, but in either case it would be an executive function, as I understand the matter.

Senator EDGE. Supplementing your expressed viewpoint, you think the Treasury Department should delegate this responsibility to a subdivision of the Treasury Department having the proper type of men. In other words, the budget commission, as I view it, to really be practical must consist of technical men—accountants, actuaries—men who have absolutely no specific interest in the Treasury Department, but only in the entire problem of government, so that they can take the requests from the War Department, the Navy Department, and the State Department and put them together on the table and gradually work them into one complete governmental budget?

Gov. LOWDEN. Yes.

Senator EDGE. So, therefore, if it is delegated to one recognized department of the Government, I think it most important that it be divested of all subresponsibilities and have just this main responsibility of working out the finances of all other departments.

The CHAIRMAN. Senator Edge, if you will turn to sections 3, 4, and 5 of Senate bill 3476, you will find provision made for a bureau which contemplates at least the inclusion of experts, which your experience tells you that we must have in the preparation of a budget.

Senator EDGE. That is most important. I think it is very important, Mr. Chairman, following your suggestion that if the responsibility of preparing the budget is delegated to the Treasury Department, that the Treasury Department must be materially reorganized, or you will give to one department practically not control, but great influence over the activities of every other department of the Government if they prepare the appropriations.

The CHAIRMAN. You and I are in agreement on that point.

Gov. LOWDEN. Just let me add one word to what I started to say a moment ago. All of the departments of the Government now are spending departments. There is not any department which is exclusively giving its attention to the revenues and disbursements of the Government.

Take the secretary of any of these Government departments. If he is a fit man, he is thinking about the activities that his department should engage upon, and he will not minimize the importance of his department as compared with any other, and so with the bureaus, so far as the chiefs within that department are concerned. They are not

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thinking about the expenditure end. They are not thinking about a balance between revenues and the disbursements of the Government.

Now, then, it is very essential, it seems to me, that there be some distinct body within the Government which is wholly concerned with that thing, and it can not be a bureau, it seems to me, inferior to these other departments, because if it is it will not have the power and influence it ought to have.

Senator EDGE. I absolutely agree with you on that.

Gov. LOWDEN. For instance, the fame of a Secretary of War or a Secretary of the Navy, or a Secretary of Agriculture does not depend upon how economically he conducts his department. He knows that he is not responsible for the finances of the Government. He knows that nobody is ever going to refer to the fact of whether he conducts his department economically. Now, if you have a Cabinet officer of equal rank with these men, whose fame will depend upon his economic and businesslike handling of the finances of the Government, and who has nothing to do with these spending departments, with building up these services, you have got something, a check upon the tendency that is natural in the other departments to spend more rapidly than the needs of the country demands. We all know—at least it was so when I was in the House, and no doubt is so now—that when we send for a Cabinet officer to testify or make statements before one of your committees upon the activities of his department, I do not care how thoroughly he is informed upon everything else, and how intelligent and how comprehensive his ideas are of the general policies and administrative features of his department, he always has to bring along somebody to tell you about the expenditures, which simply proves my point, that he is not thinking about expenditures.

Senator EDGE. He naturally proceeds with the fundamental idea that he must get as much money as possible?

Gov. LOWDEN. Yes; and he simply takes the estimates of his bureaus or bureau chiefs. On the other hand, if you have a department, a real department of the Government like the Treasury Department, divested, as Senator Edge suggested, of these spending activities, if you have that kind of a department, with a man at the head of it who is thinking all the while about the revenues of the Government and about the expenditures, and about how we are going to raise the revenues, he is responsible for the entire financial situation of the Government, and his reputation——

The CHAIRMAN. Do you mean, Governor, that it is important that one officer should survey the field of expenditure and revenue?

Gov. LOWDEN. Absolutely; and you can not divide them up, in my opinion, and I am sure that a Cabinet officer whose sole duty is to regard expenditures generally, with any sort of cooperation in the Government, will practically have no conflict with his fellow Cabinet officers whose duty is not to scrutinize or be responsible for the financial affairs of the Government, but whose duty it is to administer——

The CHAIRMAN. On that point, there are some business men who are very much interested in this reform, public-spirited men, who have expressed the fear to me that if we confer such powers on the Secretary of the Treasury, it would engender among his colleagues jealousies which would lead to friction. I want to ask you, Governor,

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if the importance of these different departments, in your judgment, will not depend upon their capacities, without reference to the powers conferred upon the Treasury. They will not be made less important, the Secretary of War, the Secretary of the Navy, or what not, because these powers are conferred upon the Treasury?

Gov. LOWDEN. Not at all. I think if they are good Cabinet officers they would be perfectly delighted to have somebody else who is exercising supervision over expenditures, because they are thinking about the big, constructive things in their departments.

Senator EDGE. To a great extent, that objection would be obviated by the handling of various agencies.

Gov. LOWDEN. Exactly. Then the Secretary of the Treasury would simply have to do with collecting revenues of the Government, with formulating financial policies, with saying to his fellow Cabinet ministers, "We can only raise so many billion dollars during the next year without an increase in taxes, and we have got to cut down expenditures." What other Cabinet minister is going to resent that? Everybody knows you have got to live within your income or face very serious trouble, and everyone ought to recognize the necessity of having somebody in a great business like this whose sole duties are to exercise supervision over the financial affairs of the business, formulate policies, receive revenue, and limit expenditures.

Senator JONES. I think it is the observation of some of us at least that whenever a new activity is entered upon and an organization established to carry on that line of work, it has the tendency to bring to itself an increase of work.

Gov. LOWDEN. Yes.

Senator JONES. So as to increase its importance, organization, personnel, and all that sort of thing. Take some such activity as the Bureau of Mines. That Bureau of Mines is organized, in the first place, we will say, for the purpose, principally of looking after the safety of miners. Then it sees where it can do something else along the line of the mining activity. Who would determine the policy of the extension of the work of that bureau or its curtailment?

Gov. LOWDEN. This is what would happen with us in Illinois. What you say is very true, that every division chief and every bureau chief is attempting to extend the activities of his department, and in perfectly good faith, and particularly if he is a very efficient, devoted official, because he sees the importance of his work. He can not, if he is a good man, see it in its real relations to the work as a whole. He exaggerates its importance, if he is a good man. That is always true in any business. He makes up his estimate which goes through his department chief, and his department chief is a little bit under the influence of the same idea, and it aggrandizes his department, and although he may not be in so large a degree, because he has a vision of a little larger field than his division chief, yet he is under that same influence.

Now, it goes to the Treasury Department. The Treasury Department finds that a year ago there was no such provision at all for this activity. The Secretary of the Treasury wonders if it is necessary. If this involves an important question of policy it no doubt would go to the Chief Executive, but there is somebody outside of the department who is interested in the field as a whole, who has to con-

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sider the Government as a whole, from the standpoint of expenditures, and exercise a check upon them.

Now, what would happen with us is this: Of course, Illinois is a small government compared with the Government of the United States, but if a new activity were recommended by a division or bureau chief that never would go into the budget until it had passed me.

Senator JONES. Then, in the practical operation of the United States Government, under your suggested plan, the Secretary of the Treasury would make a note of these special demands, these requests for expansion and that sort of thing, and would doubtless bring them up before the Chief Executive in the Cabinet meeting where all the departments could be represented and there discuss the advisability of expanding along that particular line.

Gov. LOWDEN. Absolutely. Of course, in a great many cases, Senator, if the Treasury head and the head of the other department had taken the thing up and the Treasury head had pointed out where we were going to run a billion dollars behind anyway this year, and asked him if he had not better postpone that as it was going to be necessary to economize, in many cases that would be taken out before it ever reached the Cabinet. At least that is the way it works with us.

Senator EDGE. In other words, in any department a man may be considered properly enthusiastic in developing new lines of work, but his enthusiasm should not be allowed to reach the point where he becomes a bug.

Gov. LOWDEN. Absolutely.

Senator EDGE. I think it is very true that somebody has got to hold it in check finally.

Gov. LOWDEN. That is why I say it seems to me we have got to have the power of revision somewhere if you are going to have a budget that is effective.

Senator JONES. Do you not think that the Chief Executive, the President, would prefer that these matters should come up to him through a member of his Cabinet, and in that way very naturally be considered by the whole Cabinet as an advisory board to the President?

Gov. LOWDEN. I should think so, Senator; otherwise, of course, if there is any great difference that developed, it would be thrashed out by the whole Cabinet, as you say. If you have got an independent bureau, you have got to have an independent hearing. If the department head disagrees with that bureau, the President has got to fix a time for the head of that department and the bureau head to appear before him, and as those occasions multiply in practice you would find that the whole thing was more and more neglected.

In other words, the ideal principle of administration, it seems to me, is this, that every duty which the President has to perform should be assigned, or every administrative duty should be assigned in some sort of a way to some of the principal departments of the Government represented at the Cabinet table, and I think that if you depart from that principle the thing is going to fall into neglect. I know how it is with me, and I think no doubt you have had the same experience in New Jersey, Gov. Edge.

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If I am busy when a matter comes up, I say, "This goes to this department or the other department." If there is no department to which it can be submitted I may likewise postpone it for a day, two days, or three days, and say, "I am busy about something else. I will have to advise myself." Just as sure as can be if the President has got to adjust differences between an inferior body and a Cabinet officer the delays will be such that finally the thing will fall into disuse. I fear that.

Senator EDGE. It is rather unfortunate, in a way, for with the President, of course, it is beyond any possible solution, because the President can not carry on the actual business of government as the governor can, because it does give you an opportunity of correcting these things directly.

Gov. LOWDEN. On that point, Gov. Edge, if the Treasury Department could be divested of the independent branches, the President would be able to keep in touch much more clearly with all the business of the Government, through the Treasury Department, than he possibly can at the present time.

Senator EDGE. Under the present system he is not keeping in touch at all unless he directly makes a request for information.

The CHAIRMAN. Senator Keyes, you were a governor yourself. Do you desire to ask Gov. Lowden any questions?

Senator KEYES. I was unfortunate in not having much experience with the budget. I recommended a budget very strongly, but my legislature did not agree with me.

The CHAIRMAN. Do you care to ask Gov. Lowden any questions?

Senator KEYES. No, Mr. Chairman; only I would be very much delighted if he would make any comments upon either of the bills here before the committee. You have gone over the subject very thoroughly in an intelligent way, but are there any particular things that you disapprove of in either of these bills?

Gov. LOWDEN. I will have to confess, Senator Keyes, that I have not read either of the bills. I assumed that I was asked here more especially to give the experience that we had in Illinois.

The CHAIRMAN. If you will take the two bills with you and send the committee a memorandum embodying your suggestions, I am sure everybody will be very grateful.

Gov. LOWDEN. I will be glad to do anything I can.

Senator JONES. Governor, there is a great insistence upon the point that there should be an independent auditing department responsible only to the legislative branch of the Government.

Gov. LOWDEN. Yes; I know that there has been, and the English system has been referred to in support of that proposition.

Senator JONES. I would like to know what views you have upon that subject.

Gov. LOWDEN. Of course, that seems necessarily theoretical, and I am wondering, because of the different forms of government in our country and England, whether it is really an essential part of this proposed change, as many people think. We have not that in Illinois.

This is the way it works out in practice: In the old days, when everybody that spent money made an estimate of what he wanted, and when all the estimates were put in, without any revision, without any power on the part of anybody to make a revision, it was not

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possible to find out how the money had been expended in any sort of satisfactory way, but since the creation of the department of finance, with this power to require uniform bookkeeping, certain reports, and the power to require the various departments to make up a budget for their own departments for the year, so that the finance department could see whether they were likely or not to incur a deficiency, which is very common in any government, and also with auditing powers, as I have explained, I think that we have all the information that any member of the legislature ever wants. Our books are open to everybody in the legislature.

The department of finance is in constant touch with it during the session of the legislature, and the information that we have required is much more complete and much more intelligible than any mere auditing system would have developed, and I do not fancy that anybody in our legislature would want an independent legislative audit.

If you do not assume that there is cooperation between the branches of Government, there is no system that you could evolve that will work. Assuming there is cooperation, I am wondering, if the Treasury Department became a real finance department of the Government, whether or not it would not itself, in the exercise of its power as a budget-making department, acquire all this information that an independent legislative audit would develop, and get it in a much more intelligible form.

So I am not sure that the independent legislative audit would be necessary. It certainly would not be an essential part of the change proposed by either one of these bills. Have I answered your question?

Senator JONES. Yes; I think, Governor, you have answered it very clearly, and I asked the question merely in order to get your views upon the record here regarding it, because there is in England, as you have also observed, an independent audit system responsible to the legislative branch, and some of our people in this country have also advocated it.

Gov. LOWDEN. I know.

Senator JONES. And what we are trying to get here now are the views of men who have gone through this thing, and I think it would be quite helpful to us to have your views about it. I assume that if there is to be one budget it would be essential, would it not, to have it handled by one committee in the Congress?

Gov. LOWDEN. Well, I do not know that I would say it is absolutely essential. It certainly would be infinitely better. I can understand how there might be such cooperation of the committees, with some general supervision by a steering committee, or something of that kind, so you could give practical effect to everything, but the logical thing would be one appropriation committee, and the same logic applies to that as applies to an independent department of the Government. Here comes a Congressman, and he goes upon a committee on a subject in which he is very greatly interested. He becomes, if he is a good member of that committee, unconsciously under the same influence of a desire to extend the activities of the department that the division or bureau chief is, and they are not charged with the responsibility of keeping the country from going bankrupt. Their minds are not addressed to that thing, if they are good men, but they are addressed to the things that the department proposes, and so it seems to me that, in principle, the appropriation committee

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ought to be a committee whose principal business it is to make appropriations for the Government, and not be interested in subjects which——

Senator JONES. It should be the fiscal representative of the legislative branch in the same way that the head of the Treasury Department would be the representative of the Executive.

Gov. LOWDEN. Yes. When a man's term expires. I am not unconscious of the fact that a man is influenced down here a lot by the anticipation of the next election. I have been here myself.

The CHAIRMAN. You think that may be true?

Gov. LOWDEN. I think that may be true. A man goes back to his district and he tells his people about what he has gotten for his district. He has gotten a post office here, or an appropriation for something else there, and his people applaud him. There is not anybody who is going back to his constituency and say, "The Government has saved so many hundred million dollars this year, and I was on the committee that did it. We did so and so."

Senator JONES. I am one of those, Governor, who believe that instead of taking pride in what you get out of government, you ought to take pride in what you put into government.

Gov. LOWDEN. It seems to me that one appropriation committee whose chief duty—of course, they will have other things; nobody, either in the House or Senate, is going to devote all of his time to one subject—but whose chief duty, so far as committee work is concerned, is to study the balance between expenditures and receipts of the Government, would be more likely to get satisfactory results than where the appropriation was made by committees whose chief thought is upon the constructive work within the departments which they represent or for which they make appropriations.

Of course, in the past it has been difficult to get the people very much interested in the receipts and disbursements of the Government, because we raised all our revenue indirectly, nobody was taxed, and the total expenditures of the Government were so small, anyway, in comparison to the wealth of the country, that it was not a very important matter. But the whole condition has changed now, and I think it is possible to interest the people thoroughly in any change which proposes more businesslike methods.

Senator JONES. Do you go to the extent also, Governor, of advising that this fiscal agency should also point out sources of revenue?

Gov. LOWDEN. Oh, yes. You are talking now about the executive branch?

Senator JONES. Yes.

Gov. LOWDEN. Not the legislative committees?

Senator JONES. Yes.

Gov. LOWDEN. I think the head of the Treasury ought to be the man who is working on the means by which we are going to raise the revenue, representing, of course, the President in that just the same as in other respects, and also having charge of this whole question of expenditure. I think that should be his main function, because, don't you see, Senator, that if he is given those powers, upon this question of a lot of people having in mind possible friction between him and other Cabinet officers, everybody will recognize the necessity of keeping your expenditures within your income; and if

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that department is chargeable with the whole subject as representing the President and the Cabinet, no other Cabinet officer is going to resent the fact that he says, "We have got to keep the expenses of your department within a certain amount of money next year, because I do not know how we are going to raise the money to pay it otherwise." Is not that going to strengthen him? That is the advantage he would have, if he is at the head of this whole thing, as compared with an independent bureau.

I do not mean to express any opinion, and hope I am not understood as holding a brief for any one method as against another; but I can see how, if the President tries to do it himself, directly through his own office, the thing is going to gradually fall into disuse. I am afraid of it. Whenever the President has got any duties to perform that he can not, in the first instance, at once put upon the shoulders of a Cabinet officer, somebody that he is coming in contact with every day, that means that that duty is likely to be neglected and, finally, the whole thing falls into disuse.

Senator JONES. And that would result, would it not, in presenting to the public gaze the efficiency of that branch of the service, and would have a tendency to bring about efficiency in that branch of the service because it would necessarily be presented to the public gaze, and if anything of an extraordinary nature should occur it would doubtless become an issue in the political campaign?

Gov. LOWDEN. Yes.

Senator JONES. It would be a very wholesome thing.

Gov. LOWDEN. I quite agree with you, Senator. I think that is a very important consideration, the one you just mentioned. We have all seen the establishment of some agency of government that is not put in a department. Unless it has judicial or quasi judicial duties to perform, the whole tendency is for it to gradually lose its importance, its prestige, and its influence, unless it is in some one of the departments of Government which is represented in the Cabinet. In other words, if the administration is efficient, I think its true emphasis has got to be through some one of the departments of the Government represented in the President's Cabinet.

Senator JONES. Then, when the President, through his Secretary of the Treasury, presents his budget to Congress, and the method of raising the revenue, then it is the duty, of course, for the Congress to scrutinize whatever is presented and to agree or disagree with the policies which are embodied in the general budget?

Gov. LOWDEN. Absolutely.

Senator JONES. And in that way Congress assumes joint responsibility with the Executive in the whole matter?

Gov. LOWDEN. Absolutely. I would not free the Congress from the slightest responsibility in the matter of appropriations; but I do know that it would be the most helpful thing in the world to Congress to have a budget that had been made up independently, after the result of a year's work, because now you simply have to take the word of a bureau chief or a division chief, not that it is not perfectly credible, but you know that he has the natural tendency to exaggerate the importance of his department all the while.

The CHAIRMAN. Let me repeat that last question in another form. Do you believe in a plan which would require Congress to accept or reject a budget as submitted?

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Gov. LOWDEN. Oh, no; no.

The CHAIRMAN. Or a sort of slavish adoption of the European system by this country, which has been advocated by some academic gentlemen?

Gov. LOWDEN. I do not think that is necessary at all. If I may give some little experiences that we had at home, I remember that a lot of people told us two years ago that we would not make our budget a success unless we had an amendment to the constitution by which the legislative body was bound not to legislate on the subject until it had disposed of the executive budget or until there was a decided change in the rules of the house, by which the same thing would be effected. A great many people held that idea at that time.

Now, we submitted a budget last January to the legislature, which went to the appropriations committee. We have one appropriations committee, which is a very large committee, and which, of course, is composed of subcommittees. They took up the budget as we presented it. They did not always agree with us. The subcommittee might have some views contrary to ours. Well, what the subcommittee did was simply to take the matter up with the department of finance, find out the reasons that the department had urged, and very frequently they would agree. If there was any difference of any consequence it would come to me, but finally—it was a six months' session; our session is not limited by law to any specific time—finally, when the session was over and the appropriation bills had been passed, there was no substantial change in the budget, except two or three, after full discussion.

Of course, you understand there is a little difference between the Federal Government and the State governments in the reasons for a budget. The tendency of State legislatures has been to appropriate a great deal more than the governors recommended, because they had a personal interest in an institution in their district, and all that sort of thing. They are not appropriating for great, general purposes so much as Congress is, while here—at least it was true during my experience—I think the whole tendency is to reduce the appropriations below the estimates made by the departments.

Now, then, if you should adopt this European ironclad method that there should be no changes here, I am afraid it would result in greater extravagance rather than economy. I think that the President first must be held responsible for making the statement of the amount of money that he is going to expend during the next year.

The CHAIRMAN. That he wants to expend?

Gov. LOWDEN. Yes, thank you; that he wants to expend, and he can not simply submit, as the Treasury Department does now, all the estimates of all the departments. That is absurd. There will be big reductions from those estimates under this budget system when the President submits his budget. I am just as sure of that as I am living. You have got the same responsibility now that you had before, and the same power. If it is still too high, you will reduce it, but you do not have to go about it in a haphazard way, as we have been doing in the past.

Senator JONES. Would you permit a bare majority in the Congress to modify the budget presented by the Executive?

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Gov. LOWDEN. I would answer that question a good deal as I answered your question about an independent legislative audit. I believe in evolution rather than revolution. I would meet the real, fundamental things first, to which I think we have come, namely, the power in a department of sufficient importance and magnitude to be able to demand a hearing and to have influence with the other departments, and I would not try to change everything at once. If you found later that some change was needed, it might be necessary, but I do not think it is, Senator. You have got to assume that the two departments of the Government, of course, the executive and the legislative, are going to work together, if they make a success of the budget. I think they have go to work together if they make much of a success of anything.

Senator JONES. The point has been made that if you permit the budget to be amended by a bare majority of the Houses of Congress, that there would remain that insistence from some Members of Congress for special appropriations, the objection which you referred to a moment ago in having each Member of Congress try to get something for his district.

Gov. LOWDEN. I understand.

Senator JONES. And if the matter is left open to a bare majority of Congress, would there not be that difficulty to deal with?

Gov. LOWDEN. Of course, to answer that I think I would have to ask a question. I am not familiar with the experience in the Senate, but it was very rare that the House ever changed an item in an appropriation bill after the appropriation bill had been reported favorably to the House.

Senator JONES. That is, by a committee?

Gov. LOWDEN. Yes.

Senator JONES. But would not the door be open for them to importune the appropriations committee in substantially the same way that is being done now, only they would have only one committee to deal with instead of the large number which we now have? If, for instance, I should want a public building in my home town, or something of that sort, and it was not estimated for in the general budget, I could still go to the Appropriation Committee and try to get an appropriation for that particular item added to the budget. Would we not still have the door open to the abuses about which there is considerable complaint now, namely, the getting of something for a particular district or State?

Gov. LOWDEN. Of course, there would be this difference with the budget reported by the Executive. Now, with no Executive responsibility whatsoever for the budget, Congress can enact legislation of which you speak without one one-hundredth part of the criticism that they would have if the President made a budget omitting those things on the ground that they were not reasonable. In other words, Congress would have to assume the whole responsibility for that sort of legislation, which it does not have to take now, so you would make some progress against that.

The CHAIRMAN. Governor, is it not true that in Illinois we presumed that the system which would be outlined would work, because it would make the director of finance and the governor responsible before the bar of public opinion for the sum of the estimates, and thereafter the legislature would be responsible before public opinion

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for any substantial addition thereto, and for the first time in more than a decade the legislature did not add materially to the sum asked for? The governor would not want to brag about his achievement, but in Illinois the cost of the government had increased at the rate of something like 200 or 250 per cent per decade until this system was adopted, and, at least, until these high prices which followed the war came into vogue the increase was arrested absolutely under this system.

Senator KEYES. When was your budget system adopted, Governor?

Gov. LOWDEN. In the winter of 1917, two years ago last winter, and under our constitution our laws go into effect on the 1st of July next after they are passed, so the system went into operation two years ago on the 1st of July.

But here is one thing that I want to emphasize a little bit. If you are going to have a body outside that has nothing to do with the supervision of the financial business it is going to be tremenduously handicapped in making the budget. As a matter of fact, our department of finance began making the budget for last winter on July 1, 1917, because it began a scrutiny of the business and the activities of the government, it provided for accounts, reports, and a uniform system of bookkeeping, and if an expenditure came up for their approval, even if it were authorized by law, and it seemed extravagant, or if one department was spending more for a certain thing than another for something similar the department of finance was calling their attention to it first, and then my attention if there was any disagreement, so that, as a matter of fact, your Treasury Department would be making up the budget for next year from the 1st of July this year, by virtue of its general supervision. If you have got an independent bureau, a body off to one side with no Cabinet standing, simply representing the President, how is it going to do that preliminary work? You can not simply take estimates from the different departments unless you have been studying the thing, and practically getting into the business a year in advance, and do it any better unless you have got more time for it than the legislative committee would have. Have you not got to couple with the power to make the budget the general supervision of finance before you make it function? I am just submitting that question for your consideration.

In Illinois at one time they thought they were going to create a budget there. We established what was known as a legislative reference bureau, what a good many States have. That was an independent bureau. That bureau was required to make up a budget, as it was called, but what it amounted to was that they prescribed forms for receiving estimates from all the spending agencies of the government.

The CHAIRMAN. Parenthetically, the governor was the chairman of that bureau?

Gov. LOWDEN. The governor was chairman of the bureau. The bureau was governed by two representatives of the senate, two of the house, and the governor, and they got the estimates from the different divisions and bureaus and they made up a very beautifully bound volume which they called the "Book of estimates," but there was not anything in there except the opinion of the individual bureau or division chief.

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There was no power to revise it, there was no power to summon, examine, and find out why they needed it, and therefore, while we had what we called a budget, it did not amount to anything. The legislature paid very little attention to it, because it knew that it had been gotten up for their consideration.

Senator JONES. Governor, it has been suggested that in the Federal Government, for instance, the War Department and the Navy Department should not come under this system, I assume, for the reason, as it is contended, that those departments know more about their business than the Treasury Department could learn. What is your view about that?

Gov. LOWDEN. Well, I do not see why they should not come under the department. They know, of course, more about their business, and so does the head of the Department of Agriculture, but the head of the Treasury Department knows more about how many billions we can spend than both of them put together. Now, then, you get to a point in governmental business, the same as in any other, where you can not raise more than a certain amount of money. The head of the Treasury Department knows more about that than the head of these other departments. I know that point has been raised, but I can not see it, because Congress, after all, is going to determine upon the policies which result in the large expenditures being made.

Senator JONES. Then the same objection, you think, would apply to any scientific branch of the Government?

Gov. LOWDEN. Certainly.

The CHAIRMAN. I wonder, Senator, if it is not the very old British precedent which separates the military from the civil estimates which leads us to think that perhaps the Army and Navy estimates should be segregated from the general budget? As I remember it, there, under the oldest budget system in the world, those estimates are considered apart and in separate appropriation bills, on the theory that the national defense is involved and therefore deserves separate consideration, or perhaps, going back to the declaration of right, that the King must be essentially beholden to the Parliament for the right to levy armed forces, I do not know which.

Gov. LOWDEN. I did not finish one answer that I made a moment ago with reference to amending the audit. Of course, if the Treasury Department were made really the finance department of the Government, the auditing would all be done through them, and instead of there being an auditor for each department as there is now you would have an entirely different system, and you would have as complete an audit as any legislative audit could be. The only difference would be that it would be in that department. Now, if practice would reveal the fact that the legislature could not get all it wanted through that department, then you might consider the question of an independent legislative audit.

We must always keep in mind the difference between our form of government and the English. Their whole government is parliamentary, and ours is not. They do not divide their government, as you gentlemen know better than I, into executive and legislative, so that their whole government is parliamentary; their cabinet is parliamentary. Their system of having an independent audit is not to protect the legislative against the executive, but to protect the

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minority against the majority, because of the fact that all the powers are in the cabinet there. There is no division of powers. It will have no checks and balances. The chairman of the audit committee is the leader of the minority. It never was devised for the purpose of enabling the legislative branch of the government to keep check on the executive branch of the government, but solely for the purpose of enabling the minority to keep check on the majority.

We must not lose sight of that when we talk about the legislative auditing committee, it seems to me. There are a lot of things that are perfectly applicable in England that would not be applicable here at all, because of the fundamental difference in our forms of government. I know this has been talked of, but I do not think it is an essential part of the thing that ought to be done now. I would not favor, to begin with, it seems to me, a change in the rules requiring a majority. I sort of dislike myself to get away from the idea that the Congress holds the purse strings, and you are departing from that a little bit when you require more than a minority. I think it would be a lot better, if you find it is going to be abused, if you find that there is danger from amendments made on the floor, to change your rules in that respect.

Senator JONES. Would you have the chairman of the appropriations committee that handles this of the same political party as the Chief Executive?

Gov. LOWDEN. Yes; I can not see why not. Perhaps I did not get your question.

Senator JONES. I just asked if you would have the chairman of the Appropriations Committee, or the committee which would handle the budget system in Congress of the same political party as the Chief Executive who submits the budget?

Gov. LOWDEN. No, I would not; I would not change that.

The CHAIRMAN. You mean you would have him represent the majority in Congress, whatever the politics of the Executive might be.

Gov. LOWDEN. I would have him represent the majority in Congress. I do not think there would be any practical difficulty coming out of that. As a matter of fact, there is not so much partisanship except when campaigns are on anyway down here. I mean when it comes to the business of the Government there is a disposition to cooperate in good faith, where there is no disagreement as to policies, it always seemed to me. I do not believe that practically it would be necessary to change the existing situation in that respect, although perhaps I am expressing my opinion on a lot of things that you gentlemen know more about than I do, but it is only in response to your questions, you understand.

Senator JONES. We are trying to get your views, you know. That is our object, at any rate my object, in asking these questions.

The CHAIRMAN. Governor, I would like to ask you to take these two bills with you so that you can send us a memorandum on them in the light of your own experience.

Gov. LOWDEN. I will send you something on them and will be very glad to.

(Whereupon the committee adjourned until Tuesday, December 16, 1919, at 10 o'clock a. m.)

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NATIONAL BUDGET.

TUESDAY, DECEMBER 16, 1919.

UNITED STATES SENATE,
COMMITTEE ON A NATIONAL BUDGET,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment, Senator Medill McCormick presiding.

The CHAIRMAN. Mr. Pratt, will you give the committee your name and address?

Mr. PRATT. John T. Pratt, 43 Exchange Place, New York City.

STATEMENT OF JOHN T. PRATT, CHAIRMAN NATIONAL BUDGET COMMITTEE, 43 EXCHANGE PLACE, NEW YORK CITY.

The CHAIRMAN. And perhaps some suggestion of your experience and particular interest in this budget plan would be desirable.

Mr. PRATT. I became interested in the National Budget Committee about nine months ago. I read all the books I could find on the subject, talked to a number of gentlemen who were interested, who had made a study of the budget problem of the country, and formed this little committee with the idea of trying to educate the public as to the needs of a national budget system. We started a publication about three months ago, which we issue every two weeks, in which we endeavor to explain what is going on in Washington, set out the various bills and motions that have been introduced, and analyze them.

Senator SMOOT. Where are you getting your money for the propaganda?

Mr. PRATT. I am putting up most of it, Senator. We have a subscription membership of $100, $20, and $2. We have about 300 members, I think, offhand.

Senator SMOOT. Proceed.

Mr. PRATT. The committee has been a good deal in doubt since the Good bill was introduced and passed, and since Senator McCormick introduced his bill. At a meeting the other day, however, where all of the members of the committee were present, we decided upon this as our platform. May I read this statement?

The CHAIRMAN. Perhaps you might give the stenographer the names of the members of the committee, too.

Mr. PRATT. Benjamin Strong, Paul M. Warburg, Henry L. Stimson, Joseph P. Cotton, Samuel McCune Lindsay, and Charles F. Nesbit. The platform that we adopted was as follows:

There are two bills now before Congress providing for the establishment of a Federal budget system—the Good bill which passed the House by a vote of

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283 to 3 on October 8 last, and the McCormick bill, introduced in the Senate and referred to the Senate Select Committee on the Budget.

Each bill contains certain provisions which make for an effective budget system. But with the exception of a resolution introduced in the House by Mr. Good to refer all appropriations for the support of the Government to an enlarged committee on appropriations, upon which action was deferred until this session, neither Representative Good nor Senator McCormick has introduced in his respective chamber those changes in the rules of procedure without which no adequate budget system can be established.

Of the two bills, the National Budget Committee is of the opinion that placing the proposed Bureau of the Budget in the office of the President, fixes the responsibility upon him, as is provided for in the Good bill, and is preferable to placing the Bureau of the Budget under the Secretary of the Treasury, which removes it one step from direct presidential responsibility, as provided for by the McCormick bill.

This preference means, however, placing upon the President the duties of Finance Minister of the Government in addition to those of Chief Executive. Under the McCormick bill, the duty of Finance Minister is placed upon the Secretary of the Treasury, and the President as the Nation's Prime Minister and Chief Executive, is made the responsible spokesman for the budget.

In order to make its position clear, the National Budget Committee's conception as to the essential provisions to be incorporated in legislative acts and changes in the rules of the House and Senate through which to create an adequate budget system for the Federal Government, is as follows:

PROVISIONS OF A LEGISLATIVE ACT.

(1) The creation, either under the immediate direction of the President, or in the office of the Secretary of the Treasury, of a Budget Bureau whose main obligation it shall be to prepare an annual financial work plan of the Government for the President.

The Good bill provides for the location of the Bureau of the Budget in the Office of the President; the McCormick bill locates it in the office of the Secretary of the Treasury.

(2) The designation by the head of each executive department of budget officers and assistants to supervise the classification and compilation of all budget estimates for such department.

Section 4 of the McCormick bill provides for this: Not provided for in the Good bill.

(3) The designation by the director of the Budget Bureau of officers of his bureau to establish relations and maintain contact with the budget officers designated by the several departments.

Section 5 of the McCormick bill provides for this: Not provided for in the Good bill.

(4) The submission by the head of each department to the Budget Bureau on or before the 1st day of October of the final revised budget estimates of each executive department.

Covered in both the Good and the McCormick bills.

(5) That after the regular budget estimates have been submitted, no department shall submit special, supplemental or additional budget estimates except to carry out the laws subsequently enacted or such as may be deemed necessary for the public service.

Covered in both the Good and the McCormick bills.

(6) That each department head in submitting budget estimates shall give reference to the law or treaty under which the proposed expenditures are authorized.

Covered in both the Good and the McCormick bills.

(7) That no budget estimate for which no appropriation has been made for the current fiscal year, or increases from the amount allowed in the current appropriation act shall be made without formal written approval of the budget bureau, or the President, except estimates for services in the Supreme Court and in the legislative branches of Government.

Covered in both the Good and the McCormick bills.

(8) That the budget bureau shall prepare and prescribe a uniform system of rules and regulations, provided that the Secretary of War and the Secretary of the Navy, respectively, shall join with the budget bureau in formulating rules referring to such budget estimates of the War and Navy Departments, respectively.

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Section 10 of the McCormick bill provides for this, not provided for in the Good bill.

(9) That the budget bureau shall have the powers and duties now held by the Division of Bookkeeping and Warrants of the Treasury Department so far as they relate to budget estimates.

Section 11 of the McCormick bill provides for this, not provided for in the Good bill.

(10) That the budget bureau, except as otherwise provided, shall revise, consolidate, coordinate, or otherwise change any items in any of the budget estimates submitted to them by the several departments. No change, however, shall be made without a thorough investigation, and any head of a department whose estimates have been changed may appeal to the President for final decision.

Section 13 of the McCormick bill provides for this, not provided for in the Good bill.

(11) The budget bureau shall not have power to revise the estimates of the Supreme Court of the United States, or those of the legislative branch of the Government.

Section 14 of the McCormick bill provides for this, not provided for in the Good bill.

(12) Every department, except as above excepted, shall furnish to the budget bureau such information as it may require, and the budget bureau shall have access to and the right to examine any papers or records of each such department.

Section 15 of the McCormick bill provides for this not provided for in the Good bill.

(13) That on or before the 15th of November, the budget bureau shall submit to the President a revised statement in summary and in detail of estimates for the ensuing year, a comparative statement of the previous year showing each item and the total amount contained in the budget estimates of the various departments as submitted to the budget bureau, and the amount recommended by the budget bureau, showing the estimated revenues of the Government for the ensuing year. If such estimated revenues are less than the estimated expenditures, its recommendations for new taxes or other action to meet the deficiency shall be supplemented by a statement showing the condition of the Treasury. Such statements or recommendations to be prepared in such form and system of classification as the budget bureau may deem necessary or desirable or as the President may require, provided the general scheme of classification shall be by organization units. Such statements shall contain the estimates, which, under the provisions of this act, are not subject to revision by the budget bureau. All supplemental, deficiency, or other budget estimates shall be submitted to the President in like manner.

Covered in both the Good and the McCormick bills.

(14) That on or before January 1 the President shall submit to Congress, together with his recommendation, the budget estimates, statements, and other data submitted to him by the budget bureau.

Covered in both the Good and the McCormick bills.

(15) That after June 30, 1920, no request for appropriations or recommendations for revenue needs in addition to those provided for in the budget shall be made by any officer or person employed in any department, unless at the request of the House or Senate or a committee thereof having jurisdiction over appropriations or revenues.

Covered in both the Good and the McCormick bills.

(16) The budget bureau shall furnish such aid and information to any committee of either House of Congress as may be demanded.

Section 21 of the McCormick bill provides for this; not provided for in the Good bill.

(17) The budget bureau shall prepare a codification of all laws relating to the administration of the finances of the Government, to be transmitted to the President and by him to Congress.

Section 22 of the McCormick bill provides for this; not provided for in the Good bill.

(18) That the President, in addition to the budget herein required to be transmitted, shall for the fiscal year ending June 30, 1922, only, transmit an alternative budget containing balanced statements of the revenues and expenditures of the Government for the preceding fiscal year, his estimates of the revenues and expenditures for the current fiscal year based upon the estimates as submitted to the budget bureau in the form heretofore utilized.

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Sections 4 and 6 of the Good bill provide for this; not provided for in the McCormick bill.

(19) There shall be removed from the office of the Secretary of the Treasury, provided it is decided to make the Secretary of the Treasury the finance minister of the Government, such bureaus and duties as are not a part of the fiscal operations of the Government.

Section 20 of the McCormick bill; not provided for in the Good bill.

(20) That the comptroller general may be required to transmit to Congress from time to time such information and such reports as may be demanded by Congress or any committee thereof appointed to follow expenditures of the executive department and the money granted by Congress.

"The Good bill, in sections 9 to 12, inclusive, provides for establishing an accounting department, and comptroller general, independent of the executive departments, and abolishing the office of the present Comptroller of the Treasury. No similar provisions are found in the McCormick bill. In the opinion of the national budget committee it is most unwise to attempt to uproot the present auditing and accounting systems of the Government, until a most thorough and exhaustive study has been made of the existing statutes and rules of procedure. Even then, the functions of Congress can be better exercised by appointing a joint examining committee with power to call for reports from the comptroller general, than by providing the system of pre-audits as called for in the Good bill."

CHANGES IN THE RULES OF THE HOUSE AND SENATE.

(1) That the budget as submitted by the President shall be considered by single committees of the House and Senate.

(2) That a definite time be set aside in each chamber for the discussion of the report of the single committee, which report shall show in parallel columns the President's budget and changes recommended by the committee with the reasons therefor.

(3) That no legislative rider shall be attached to any appropriation bill and no appropriation rider shall be attached to any legislative bill.

(4) That no private bill for the expenditure of money shall be in order until after the respective chamber has acted upon the President's budget and the report of this single committee, and unless it provides the funds for financing the appropriation called for in such private bill.

(5) That a joint committee from each Chamber shall be appointed to follow the expenditures of the executive departments and the money granted by Congress, with the power and the duty to examine, review, and criticize every item of expenditure made and to report to Congress annually and at such other times as Congress or any committee thereof may demand.

(6) That Cabinet officers shall be given the privilege of the floor in both Chambers and be required to appear before the Committee of the Whole in either Chamber whenever necessary for the purpose of explaining or defending their estimates as contained in the President's budget.

Senator SMOOT. That covers about all that you have to say in relation to the budget plan?

Mr. PRATT. Yes, sir; only I might say that we made some changes in the bill introduced by Senator McCormick. He provided for taking away from the review of the budget bureau the technical estimates of the War and Navy Departments. In the opinion of the National Budget Committee, we did not see any justification for taking away from the budget bureau those estimates.

Senator SMOOT. What makes you think that the estimates are going to be less than they have been in the past by having the budget committee appointed by the President and responsible to him?

Mr. PRATT. The theory of the National Budget Committee is that the responsibility of actually going over the estimates of the various bureaus of the various departments must be fixed upon some individual or committee.

Senator SMOOT. You say going over the estimates?

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Mr. PRATT. Going over the estimates; yes, sir; examining, I mean.

Senator SMOOT. That never happened in all the history of the Government. I do not know that any Congress ever gave a dollar that was not estimated, but they have given billions of dollars less than what was estimated.

Mr. PRATT. I realize that; but that has been partially due, in our opinion, to the fact that the President or the administration has not had any bureau which was looking over, consolidating, revising, and coordinating all the various estimates of the bureaus of the spending departments.

Senator SMOOT. Under the present system they never will, or under the system that you recommend here such results will never be attained.

Senator EDGE. I did not hear the first part of your statement, but gather from this conversation that you recommend what might be termed a Government budget commission appointed by the President, directly accountable to him, rather than the Treasury Department, for instance, as designed in the McCormick bill, to be a budget commission?

Mr. PRATT. That is the opinion of the majority of the committee. At the present time it would be better to have it that way than to attempt to get out of the Treasury Department all the nonfiscal agencies which are there.

Senator SMOOT. The heads of all the departments are appointed by the President?

Mr. PRATT. Yes.

Senator SMOOT. If you have a budget committee appointed by him, do you think for one moment that the budget committee would dare to recommend against anything that the President may want, or that any of the Cabinet may want? As long as they are appointed by him, off would go their heads if they did anything he did not want.

Senator EDGE. I might answer that by saying that there is no reason in having a budget if you can not get independent work by somebody.

Senator SMOOT. Not at all. It is only putting a whole lot of employees in another department of the Government. Lord knows we have got all of those that we want now. There ought to be half of them put out.

Senator EDGE. I think the only way you are going to get all of them out is to have some department that is independent, as far as it is possible to have an independent department under a Republican or Democratic form of government, which at least can be expected to point out to the Executive where overlapping exists, and I can not see any reason why they would be afraid to do that, even though they might displease a Cabinet officer.

Senator KING. What we need more than anything else now is an efficiency bureau with power to act.

Senator EDGE. That is the same thing, call it what you will.

Senator SMOOT. And not be responsible to the President nor appointed by the President.

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Mr. PRATT. We have not covered the question of appointment in here, Senator Smoot. We simply tried to define the powers of this budget bureau and how it should function.

Senator SMOOT. I recognize what you are trying to attain, but it will never be accomplished in the way you recommend.

Senator EDGE. What would you recommend as against it?

Senator SMOOT. There are two ways of doing it, in my opinion. One way is for Congress to pass legislation creating an efficiency board with full powers of investigation and recommendation, and with power to go into any of the departments and make an investigation as to their mode of carrying on the work, the duplication of work between departments, and recommend to Congress the appropriation necessary to carry out the plans on a basis of economy rather than a basis of wild, reckless extravagance, as we have to-day.

The other way is to have a budget commission appointed by Congress, responsible to Congress, with authority to make up the budget after a thorough investigation of every need that the Government may recommend that they desire.

Senator EDGE. Why do you think, Senator, just to follow along your thought, that with such a commission appointed by Congress, dependent upon 435 Members of the House and 96 Members of the Senate, they would be less susceptible to the influence of an individual Congressman or department, through a Congressman, than a commission appointed by the President?

Senator SMOOT. The reason is this, that there is not any doubt but what the Appropriations Committees of the House and Senate desire that the appropriations be as small as possible to carry on the work. The bureaus, the divisions, and the departments of the Government all want as much money as they can get, and if you go through every estimate that has ever been made for the last 20 years that I know of, and notice what Congress has given by way of an appropriation to cover those estimates, you will find billions of dollars of appropriations less than the estimates.

The CHAIRMAN. May I interrupt a moment? There are three witnesses present, and the Senate meets at 11, and I wondered if the members of the committee might not refrain from testifying for their mutual information?

Senator EDGE. I agree with you, sir.

The CHAIRMAN. Mr. Pratt has come all the way from New York, and while he has condensed his views admirably, I want to ask him if he cares to add thereto before we call the next witness.

Mr. PRATT. No; I do not think so, Senator. My own personal opinion is that if you could make the Secretary of the Treasury correspond to the English chancellor of the exchequer that it would be an ideal system in our Government.

The CHAIRMAN. You mean subject to constitutional differences between the two Governments?

Mr. PRATT. Oh, yes. We have in the Treasury Department now some 31,000 employees, and a lot of nonfiscal bureaus, and to make that change in the Government, in my opinion, at the present time, is probably less desirable than to take the other step. I think that is all I have to say.

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STATEMENT OF MR. W. F. WILLOUGHBY, DIRECTOR, INSTITUTE FOR GOVERNMENT RESEARCH, 818 CONNECTICUT AVENUE, WASHINGTON, D. C.

The CHAIRMAN. Prof. Willoughby, will you give your name and address to the stenographer?

Mr. WILLOUGHBY. W. F. Willoughby, director of the Institute for Government Research, 818 Conecticut Avenue.

The CHAIRMAN. Perhaps you will give the committee some idea of your experience and interest in the budget.

Mr. WILLOUGHBY. Mr. Chairman, I would like to do that because I would like to make it as clear as I can that the consideration that I have given to the subject is not purely academic. For six years I was treasurer of Porto Rico, right after the establishment of civil government there, and in virtue of that office was also a member of the upper branch of the legislature, the executive council, and in that branch I was chairman of the committee on finance, that had the preparation of the budget. We had one single appropriation bill or budget for the entire government. So that during that six years I had personal experience with the problems involved, both from the administrative side, as treasurer, in framing up a budget, and from the legislative side in putting it through after it had been framed up.

Then, I was for a couple of years an Assistant Director of the Census, which gave me a rather intimate view of the problem here at Washington, from the administrative end, and I might say that I had previously been connected with the Government in every capacity for a number of years, so that I have grown up in Washington, and I know the administrative system here, I think, pretty well.

Then I was a member of President Taft's Commission on Economy and Efficiency, and one of the works that we did was to try to formulate a budget, so I went through a couple of years of experience in that way.

Then, for the last two or three years I have been Director of the Institute for Government Research, an institution established purely for the purpose of making studies of those subjects and giving information that we thought would, when given publicity, aid the officers of the Government in performing their duties.

Now, in anticipation of the fact that financial reform is going to be the big administrative reform, I went to England in 1914 to make a study of the British budgetary system there, and I made that on the spot, and the result was published in one of the volumes published by the Institute for Government Research. My institution afterwards studied the budgetary system of Canada and published a volume on it; we translated the work on the budget by René Stourm, which gives the French system; and I personally made a study of the budgetary systems of all of our States, published it in a volume, and then wrote a special volume on the problem of budgetary reform as it concerns the National Government.

I say that in order that you will know that for probably nearly 20 years it is a subject that I have given personal attention to and have had some opportunities actually to participate in the work.

As you probably know, I have had an opportunity of testifying before the House Select Committee on the Budget, and I try not to

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repeat any more than I can help because the published hearings are available. Furthermore, the position has now been reached where there is practically an agreement regarding the necessity of a budget system, and the discussion properly, I think, narrows down to a few points.

The problem of budgetary reform presents three phases, one, the formulation of a budget; two, action upon the budget by the fund-raising and fund-granting authority, Congress; and third, the control of the execution of the budget secured through an audit. The first two phases are matters of legislation, and the third has to be handled by changes in the rules of the Senate and House, and that phase, I think, is not really before this committee very specifically, because we are considering now legislation that will handle the first and third phases.

I do not desire to talk on the third phase, the audit, unless the committee would want to ask any questions, except to this extent, that I consider it a very important phase, that should go along conjointly with a proposal to vest in the President the formulation and submission of a budget. The vesting of that power in the hands of the President, as it should be, is certainly going to enormously increase his power. I mean, it will increase it effectively in the Government, and it is going to increase it politically outside of the Government. And I think it is a canon of correct administrative organization and procedure that just in proportion as responsibility is increased and powers enlarged, control should be correspondingly strengthened.

The proposal to establish an independent department of accounts, with a comptroller entirely independent of the administrative branch and reporting directly to Congress, gives the real responsible body, Congress, power to go over and scrutinize in an independent way every act of the administration, and will furnish the means of control over this enlarged power that the President would have, and I therefore think that it is very important that a measure should include that as well as the other two phases.

Now, addressing myself directly to the problem of the first phase, the formulation of a budget, I think there can be scarcely any question that there is only one officer in the Government that ought to have that duty and responsibility, and that is the President. He is the head of the administrative branch of the Government, he is the only administrative officer that is selected by the people, elected, and therefore the only administrative officer that the people can hold responsible for a program and for its execution. He is the only officer of the Government that represents the entire Government, as distinct from the entire adminstrative branch of the Government, instead of simply a part. He is consequently the only officer that can occupy the position of protecting the Treasury against parties that are seeking money. The radical defect of our present system is that within the administrative branch there is no officer that now takes seriously or exercises the duty of protecting the Treasury against the spending departments, and I was very much impressed, in attending the hearings over at the House, with the importance of the fact that if we are going to have economy and efficiency, it has got to be stopped at the source, just like taxation

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is stopped at the source, and the source of expenditures are the estimates, and before they go to the Congress they ought to be passed upon by somebody whose interest is in the Government as a whole, whose interest is in the Treasury and whose interest is in protecting the public funds against those asking for them.

So that the first starting point in forming a bugetary system is placing this obligation squarely upon the President and making him the only officer authorized to submit to Congress what, in his opinion, are the steps that should be taken to meet the revenue and expenditure needs of the Government.

Senator KING. If it would not interrupt you, do you not know that the history of our Government from the beginning, except in one or two administrations, shows that while there have been extravagance upon the part of Congress, most of the extravagances, or practically all of the extravagances, have been the result of carrying out the recommendations of executive branches and executive departments, and even of the President himself?

Mr. WILLOUGHBY. I think there is no doubt that the extravagances have originated—I will not say extravagances—but certainly the excessive appropriations have originated in the executive branch of the Government. They always ask for more than they ought to get, and Congress always cuts it down, and properly so, but the point I am making is that those do not originate with an officer whose interest is to keep expenses down. They originate and come direct to Congress from the officers whose interest is to have them as much as possible.

Now, the bugetary plan, by putting this obligation on the President, interposes that officer whose interest is quite distinct from the spending branches of the Government, in that sense.

Senator SMOOT. Do you think the President of the United States is going to tell one of his appointees, the head of a division that demands a certain amount of appropriation, that he is not going to have it, or do you think that any organization in the United States, with a large number of voters, making a demand for appropriations, is going to be cut down by the President?

Mr. WILLOUGHBY. I certainly do.

Senator SMOOT. You have more confidence in him than I have.

Mr. WILLOUGHBY. If I may elaborate on that point for a moment, I think it is highly important that we appreciate that we have got to have the people with us under any system if we are going to have a more economical and efficient financial administration.

Senator SMOOT. The people are certainly with them just as strong as they are with the election of a President.

Mr. WILLOUGHBY. But at the present time they have not taken the means of bringing home responsibility. My idea is this, that if the President each year when Congress convenes in December, would make his annual address in effect a report, as the general manager of a business corporation, and would come before Congress as his board of directors, and say, "Gentlemen, here is the way the money has been expended in the past for certain services, certain activities, properly classified and analyzed, and here is my own work and financial policy for the future," and have the scheme of presentation that of proceeding from the general to the particu-

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lar, and have him say, "I want $6,000,000,000 distributed as follows," and then have him put the main heads and then the items entering into those heads until he gets down to the details, that would represent his program and his own responsibility, that the newspapers would feature, and the public would consider and would be able to hold him responsible, and he is the only administrative officer that can be held responsible, if he sends in an excessive request for expenditures, and if he sends in an economical program he will get the political benefit of it.

Senator EDGE. In other words, you believe, rather apart from Senator Smoot's thought, that the President has a record to make before the country in lowering the appropriations, and would be more interested in doing so, even though he had appointed the various heads of the departments?

Mr. WILLOUGHBY. Precisely. Then we want to consider that the budget will contain two sides of the account. He will submit, in effect, a balance sheet, and he will say, "My total estimates of expenditure needs are so much, and the estimates of revenues under existing laws will be so much," which will show either an excess of expenditures or an excess of revenues. If he can show an excess of revenues he can recommend in his message that the income tax be reduced, or that the surplus be applied to the reduction of the public debt.

If, on the other hand, his estimates show an excess of expenditures, he is under the obligation of recommending how to meet them, which means he has got to recommend either the floating of a new issue of bonds, or he has got to recommend an increase in taxation. He will be under the strongest incentive possible in submitting his program to show an excess of revenue, and especially under present conditions, which would make possible a reduction in taxation or a rapidly paying off of the public debt.

Senator KING. If I may interrupt you, I know that in Mr. McKinley's administration I was in the House at the time and there was a determination, I think, upon the part of the Republicans and Democrats to have as economical an administration as possible, and I know that Mr. McKinley urged the Cabinet officers and heads of the departments to bring down their recommendations to the lowest possible point, yet the recommendations which they made called for very heavy appropriations. I think the same is true under Mr. Wilson's administration, and the President has always—and it can not be otherwise—followed the advice of the Cabinet officers, and it does not seem to me, under any system I have heard discussed, that you are going to erect a mechanical contrivance or instrumentality that is going to intrude itself between the Cabinet officers and the President of the United States, and the Cabinet officers, importuned by the heads of the departments, will make recommendations to the President adverse to the recommendations of this body which will bec reated, and the heads of the departments, if they are overruled by this budget commission, will go to the Cabinet officer and say that they have been unfairly dealt with by the bugetary commission and that their estimates have been cut down below what was absolutely imperative to properly and efficiently administer their departments, and the Cabinet officer will rely upon them rather than

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upon the budgetary commission, and the Cabinet officers, in turn, will go to the President and protest against the recommendations of the budgetary commission, if the budgetary commission cuts down the appropriations or the recommendations much below what the Cabinet officers and the heads of the departments insist they should have. I confess I have been unable to see how that is going to work out properly.

Then, furthermore, just one other thought, so that we may deal with it. Many of the appropriations depend upon the policies of the administration. Those policies may not be written into law until Congress acts. For instance, Mr. Daniels, doubtless carrying out the wishes of the President, recommended a very large Navy calling for over a billion dollars. Congress said, "We will not indorse that policy," and they did not indorse it, and the appropriation they gave him was very much less than what Mr. Daniels first recommended, so that the policies of the administration would call perhaps for a very large budget, and the budget committee, relying on the known policies of the President, advocated by him, would prepare their budget with reference to those policies, and yet, when it comes before Congress, Congress may just cut the policies of the President in two, or reject them entirely, which would result in an estimate for a very much smaller budget.

Mr. WILLOUGHBY. Senator, I would like to address myself directly to that point you have raised, because there is no question but that it is the vital question that is presented in getting a system that is going to work.

Mr. Chairman, on that particular point, as to whether really effectively the President, working through a special organ like the bureau of the budget, can really effectively cut down the estimates, I want to say this. In the first place, it should be very clearly understood that the bureau of the budget should be purely an executing agent; it should have no power of its own inherently; that its whole powers should be those of the President, and that the bureau does nothing more than raise the issues, assemble the facts, prepare the case in respect to effecting economies for the President's decision, and the President will make the decision, and he is the only one who possibly can. I think that point is of great importance because so much of the discussion has taken the form of saying that this bureau chief, having the standing and status that he did, in the first place, will be unwilling to oppose a Cabinet officer, and, in the second place, in the issue between him and the Cabinet officer the President would decide with the Cabinet officer.

Now, the issue is not between him and the Cabinet officer. The issue is really between the President and his subordinate, the Cabinet officer. All that this bureau of the budget is going to do is, as I say, to prepare the case so that the President can intelligently get both sides of the case. He will not simply have the ex parte statement of the administrative officer that he needs a certain amount of money. That is all he gets now.

Senator SIMMONS. Well, in addition to preparing this data for the President, is it not contemplated that that authority will make some finding and recommendation to the President, so as to save the President the necessity, which will be a great draft upon his time, of

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minutely considering each question that may be raised by the facts they find and reaching a conclusion? In other words, will not it be a mere matter of the President's indorsing or refusing to indorse or modify its recommendations or findings?

Mr. WILLOUGHBY. It will take that form largely.

The CHAIRMAN. On that point, Prof. Willoughby, why would you fix the responsibility, subject to the President's ultimate decision, in a bureau immediately subordinate to him, rather than in the Treasury, where it first may be exercised by the Secretary, who is on a parity and sits in conference with his colleagues in the Cabinet?

Mr. WILLOUGHBY. Mr. Chairman, I would like very much to discuss that point, but if you will permit me I will follow out the work of this bureau, regardless of where it is placed, before I raise that question. If this bureau of the budget, wherever it is, is really to perform its duty, it has got to know the facts in regard to the Government as a whole and all of its activities, so that it can act intelligently, and the question has been raised, Is it possible for a bureau to get that detailed information? I think it is. My idea would be that the first thing that the bureau of the budget, on its being established, would do would be to prepare or have prepared a service monograph giving the history, organization, and activities of every branch of the Government.

The Institute for Government Research, of which I am the director, started out to do that thing as a part of our program of making known information that would be of value to administrative officers and legislative officers in carrying on the Government, and I just want to distribute this volume and ask you to look at it just a moment to get my idea.

(Whereupon the committee adjourned to meet at 10 o'clock a. m. on Wednesday, December 17, 1919.)

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NATIONAL BUDGET.

WEDNESDAY, DECEMBER 17, 1919.

UNITED STATES SENATE,
COMMITTEE ON A NATIONAL BUDGET,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment, Senator Medill McCormick presiding.

The CHAIRMAN. Will you give your name and address to the stenographer?

STATEMENT OF MR. ROBERT W. BELCHER, REPRESENTING THE CHAMBER OF COMMERCE OF THE UNITED STATES.

Mr. BELCHER. Robert W. Belcher, representing the Chamber of Commerce of the United States; address, Falls Church, Va.

It is very unfortunate that the chamber can not be represented this morning either by Mr. Clause, the chairman of its special committee on budget and efficiency, or Mr. Goodwin, its secretary. Mr. Clause telegraphed yesterday from Pittsburgh that it would be impossible for him to be here, and Mr. Goodwin is ill, and the responsibility of laying before the committee the views of the chamber has therefore been delegated to me.

As preliminary, for the information of the committee and for the purpose of the record, I should like to say that the position of the national chamber on the question of a national budget is based upon the first referendum which the chamber ever held. This referendum was issued to the organization members of the chamber on the 30th of November, 1912, and the vote, which closed on January 14, 1913, was almost unanimously in favor of the adoption of a budget plan for the National Government. The vote was 573 to 10.

The policies of the chamber on national questions can never be determined by its board of directors. Its policies are, and always have been, fixed in one of two ways, either by a vote of the entire chamber itself at one of its annual or special meetings or by the process of a referendum to its organization members. The referendum is the plan most commonly followed.

The chamber, as the committee may know, is a federation of commercial organizations, including local chambers of commerce and trade organizations of wider scope. There are to-day approximately something over 1,200 organization members, of whom between 200 and 300 are national trade organizations, the balance being local commercial organizations.

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In determining a question by referendum the usual procedure is for a committee to prepare definite proposals which are made as concise, as clear, and at the same time as comprehensive as possible. These proposals are then submitted to the organization members of the chamber, along with statements on both sides of the proposition, both the affirmative and the negative. It is not all comprehensive. We should not like to represent it as containing everything that could possibly be said on the subject, but it is quite comprehensive, and it is at least suggestive. That was the plan followed in the first referendum which was taken in 1912 and 1913, and in that referendum a definite plan for a national budget system was laid down. The result was the overwhelming vote in favor of the adoption of such a plan, and since that time the chamber at its annual meetings has on several occasions indorsed the proposition for a budget system.

Senator EDGE. Pardon the interruption, but I think the members of the committee here are all familiar with the general modus operandi of the chamber and its importance and scope. I think what we would like to get as directly as possible is the type of a budget. The question of a budget and the necessity for a budget has long ago, I think, been generally acquiesced in, especially by this committee, and certainly all the trade organizations of the country, but we are meeting primarily to discuss the different types of budget, and if you will just give us as directly as possible the type of budget the chamber of commerce has indorsed, and its features, we will be very grateful.

Mr. BELCHER. I am sorry that I have taken up the time of the committee unnecessarily, but I thought it would be well to have that statement in the record.

The type of budget system which the chamber approved is contained in this pamphlet entitled "National Budget," which was prepared by the chamber's special committee on budget and efficiency. Very briefly described, the position of the committee and the chamber is that a sound budget system calls for action along two lines; first, the preparation of the budget by the executive; and, second, the consideration of the budget by the legislature. The committee has taken no stand in regard to the question of an independent audit. It does not wish to be understood as opposed to any plan or in favor of any plan, but that is not within the function of the committee.

With regard to action by the executive, the position of the chamber's committee is that the budget should be prepared in the first instance by the Chief Executive, as the head of the Government and its business manager; that in the preparation of the estimates of the budget he should be provided with an agency which, for purposes of convenience, may be called the budget bureau; that he, as the Chief Executive, should submit this budget to Congress; that Congress should consider this budget as a whole; that in the consideration of the budget there should be in each House one committee, a joint committee, if you please, or a single committee, considering both the appropriations and the revenues. The entire budget, as a whole, should be considered by these single committees in each House. The chamber does not approve any limitation whatsoever on the power of Congress to change the recommendations of the Chief Executive.

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It is the fundamental principle of this scheme of budget procedure that responsibility shall be definitely fixed, and it is recommended that the responsibility for the proposals, in the first instance, shall be fixed upon the Chief Executive. He shall be required to submit to Congress a clear, comprehensive work and finance program showing what the Chief Executive proposes to do for the coming fiscal year, how much it is going to cost, and submit it in such a way that not only Congress but the public as well can understand what this finance program is and how this money is going to be spent.

After the submission of this program to Congress, Congress will be given complete authority to change it in any way that it pleases. If there is an issue between the President and Congress as to how much money shall be appropriated for any particular service, that issue will be clearly joined. If Congress decides that the President has asked for too much money, and cuts it down, the issue is clear before the public. If Congress decides that a particular function or service shall not operate for the coming year, and cuts it down, there is a clear issue which the people can understand.

Senator EDGE. You speak of the bureau acting with the Executive. Has the chamber of commerce considered the possibility of using one of the departments, the Treasury Department, for instance, as such a budget bureau?

Mr. BELCHER. That has been considered. The committee believes that it would be far better to provide for the budget bureau under the immediate direction of the President and concentrate responsibility upon him as the Chief Executive.

The CHAIRMAN. Let me ask you on that point how many members of the committee were present at these deliberations when it formed its conclusions?

Mr. BELCHER. You mean on the original preparation of the pamphlet here?

The CHAIRMAN. Well, in determining the policy in regard to the location of the budget bureau, etc.?

Mr. BELCHER. I am sorry, Senator, I can not answer that question, because this pamphlet was prepared before I became connected with the chamber.

The CHAIRMAN. I mentioned that because certain members of the committee have advised me that the report was published and the conclusions reached without their knowledge; that their names were used while they were uninformed as to the policy adopted by the chairman and some other members.

Mr. BELCHER. Well, Mr. Chairman, the position of the committee, as laid down in this pamphlet here, which is the basis of my brief statement of the principles, is based upon the result of the referendum taken in November and December of 1912, and it was that thought and that position of the chamber which guided the committee. The policy of the chamber was fixed through that referendum.

Senator KEYES. Can you give us what was submitted and what they voted on—how the question was submitted to the members?

Mr. BELCHER. Yes. Here is the only copy of the pamphlet which I have. I think I can secure another copy for the committee.

The CHAIRMAN. We will incorporate it in the record.

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Mr. BELCHER. I will be glad to have it incorporated in the record. (The matter referred to is here printed in full as follows:)

NATIONAL BUDGET—DECLARATION OF SEVENTH ANNUAL MEETING, MAY 1, 1919.

REPORT OF THE SPECIAL COMMITTEE ON BUDGET AND EFFICIENCY.

To the NATIONAL COUNCIL OF
THE CHAMBER OF COMMERCE OF THE UNITED STATES:

At the sixth annual meeting of the chamber, held in Chicago in April, 1918, the special committee on budget and efficiency had the honor of submitting a brief report outlining its plan of activity. Now, by instruction of the board of directors, it submits the following report regarding its conclusions reached and recommendations for carrying these into effect to the national council in the hope that if these conclusions and plans meet with the approval of the council that approval will be expressed in resolutions to be transmitted through the committee on resolutions for action at the seventh annual meeting.

This committee has a double function to perform. It has to deal with two matters, efficiency in the National Government, and a national budget system which, though closely allied under the general heading of economical and businesslike Government administration, can best be treated separately. In the first referendum ever conducted by the national chamber and completed in the first year of its existence, a national budget system was overwhelmingly indorsed. Since the chamber became committed to this system by this vote, it has been incumbent upon the board of directors under the by-laws to take action to make this vote effective and, through this committee and its predecessors, it has been carrying on from time to time, as occasion offered opportunity, a campaign of education. It has conferred with the President of the United States and with Members of Congress, while keeping in close touch with all movements inside and outside of Congress tending to the accomplishment sought.

In the matter of securing greater efficiency of governmental administration on the other hand, the committee has had no referendum vote or resolution adopted in annual or special meeting authorizing it to act along any particular line on behalf of the chamber. On the contrary, it was created by the board of directors, so far as its efficiency functions were concerned, with a view to laying out a plan and program which could be laid before the membership at the appropriate opportunity. Plans were developed which were based mainly upon a war measure known as the Overman Act, authorizing the President of the United States to reorganize the executive branches of the Government, but the near approach of peace and the expiration of these war powers, together with the natural and probable disinclination of the Executive, even at this time, to act under authority supposed to be exercised only as the exigencies of war should require, make it necessary for the committee to revise its report at the present time and presumably to seek through new legislation authority for an efficiency program. Consequently, in reporting to the national council the committee is confining itself mainly to the subject of a national budget.

The war made necessary an expansion of Government expenditures to an extent hitherto not only unprecedented but almost unbelievable. This in turn gave rise to a comparative expansion of taxation and issuance of Government loans. The immense burdens thus placed upon the people in general, and upon business and industry in particular, has led to a greatly increased interest in the manner in which the Government expends its funds and a demand for stricter and more intelligible methods of appropriating and accounting. Consequently, the time has arrived for pressing upon Congress the need for adopting a budget procedure with far greater hope of success than at any time in the past. Not only the organizations which in the past have supported the national budget are becoming more active but new organizations with the sole purpose of supporting the budget propaganda are springing into existence. If all these agencies can be brought to work with a common purpose for the same end, it is to be expected that Congress, in which support for a budget plan has been constantly growing, will give heed to this expression of popular opinion and demand for financial methods which have long since been approved in every other enlightened country on the globe. The present President of the United States some years ago expressed to a budget committee of the chamber his support of the plan, and quite recently in a cable to the then Chairman of the

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Appropriation Committee of the House has voiced his desire for the adoption of the budget method.

The committee has felt that one of the most potent obstacles in the way of securing a national budget is that a budget can be made up in so many different forms and with such varying requirements that a meeting of minds upon one single plan would be difficult of achievement and, in the confusion of opinion between budget advocates as to just what a budget should be, the enemies of all budget procedure would be enabled to play off one element against another. With this in view, the committee has drafted in simple language and concise form what might well be called the minimum requirements of a budget system upon which all advocates should be able to unite. It should be emphasized that these are the minimum requirements of an effective budget system and that additions might advantageously be made to them in the course of time. At the same time, the committee believes it would be a mistake to advocate a budget system based on foreign precedents to the extent of requiring amendments to the Constitution of the United States, or extremely radical changes in law and long established custom. The program thus adopted by the committee is laid down as follows:

FORMATION OF BUDGET BY THE PRESIDENT.

That annually, as soon after the close of the fiscal year as is feasible, the President shall cause the following steps to be taken:

1. The submission to him by the Secretary of the Treasury of the following statements: A. The condition of the Public Treasury as shown by current resources and obligations of the Government at the end of the fiscal year just closed, and, if feasible, for a series of years preceding. B. The revenue and expenditures of the Government during the last completed fiscal year, and, if feasible, for a series of years preceding. C. Fixed charges and appropriations and estimated revenues for the fiscal year in progress. D. Changes, if any, which, in his opinion, should be made in the revenue system having for their purpose the increase or decrease of the national revenue. The statements called for under A, B, and C should present the data classified and totaled in such a way as to show clearly their nature.

2. The submission to him by the heads of all departments and other Government establishments of comparative statements showing in detail (1) their expenditures for the fiscal year just closed, (2) appropriations for the year in progress, and (3) estimates of expenditure needs for the year to ensue.

Such statements shall be submitted in such form and with such supporting data as the President may prescribe.

3. Upon receipt of the foregoing statements the President shall cause to be prepared a budget which shall set forth in detail: A. The condition of the Treasury as shown by current resources and obligations at the end of the fiscal years just closed and for a series of years preceding. B. The revenues and expenditures of the Government during each of said years. C. The fixed charges and appropriations and estimated expenditures during the year in progress. D. The provisions which, in his opinion, should be made for meeting the revenue and expenditure requirements of the year to ensue.

These statements shall be in all cases in the form of balanced statements, and the data contained in them shall be so grouped and totaled as to furnish a clear idea of the nature of the resources and obligations of the Treasury, appropriations in force, revenues, and expenditures.

The statement of provision to be made for meeting the revenue and expenditure requirements of the Government for the ensuing fiscal year shall represent the provision which, in the opinion of the President, should be made for those needs, regard being had by him to the general policy which, in his opinion, should be followed in respect to work programs of the Government to be undertaken and the manner in which such programs should be financed. The budget, in a word, should represent his judgment as to the financial and work program that should be adopted for the year to be financed.

The preparation of this budget should be handled by a special service organized by the President for the purpose, working under his immediate direction and instructions and directly responsible to him.

4. Immediately upon the assembling of Congress in regular session the President shall transmit to it this budget, accompanied by such letter of transmittal, explanations, analysis, and supporting statements as, in his opinion, are desirable

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in order to get clearly before that body the nature of the proposals contained in it and the reasons actuating him in their formulation.

This budget shall represent a consolidated statement of the revenue and expenditure needs of the Government for the year to be financed, and no other estimates shall be submitted to Congress directly by any other administrative officer of the Government.

5. The President shall in like manner cause the heads of all departments and Government establishments to submit to him their estimates of supplementary or deficiency appropriations needed by them to meet requirements of their services during the year in progress. These estimates shall be examined by the special service above mentioned, and the President shall submit them, with such revision as he deems proper, to Congress as supplementary or deficiency budgets for that year.

ACTION UPON BUDGET BY CONGRESS.

That the two Houses of Congress shall amend their rules so as to provide:

1. For a single committee in each House to have jurisdiction over all revenue and expenditure proposals.

For the submission of the budget upon its receipt to such committee.

3. For the treatment of the budget as the basis for all revenue and expenditure bills.

4. For the preparation by such committee of a budget bill or bills which shall follow the scheme and classification of the budget as transmitted by the President.

5. For the preparation of a report which shall accompany said budget bill or bills and which shall set forth clearly all features or items in respect to which such bill departs from the proposals contained in the budget, with the reasons which have actuated the committee in recommending such changes.

In conclusion, the committee desires to submit to the council for adoption and transmission to the resolutions committee of the annual meeting, if the council shall see fit, the following resolution:

NATIONAL BUDGET.

"Whereas the vast increase in Government expenditure due to the war has given rise to a heavy burden of taxation upon the people of the United States, and to Government borrowing from the people to an extent hitherto unknown and never anticipated; and

"Whereas this increase in taxation and Government loans has naturally and reasonably led to a demand on the part of the people for a budget system in raising and appropriating moneys which shall intelligibly present to the people the purposes for which and the methods by which these moneys are raised and expended: Now, therefore, be it

"*Resolved*, That the Chamber of Commerce of the United States approves the plan for budget procedure laid down in the report of the Chamber's Special Committee on Budget and Efficiency, and calls upon all its member organizations to establish budget committees for the purpose of cooperating with the National Chamber's Committee in its campaign for the adoption of these principles and for the purposes of carrying on in each community in which they are located an educational propaganda upon the subject of a national budget, and bringing to the attention of their Senators and Representatives in Congress the sentiment of their communities in regard thereto."

EFFICIENCY COMMISSION.

"Whereas the vast extent of the Government service and the multiplicity of its operations point clearly to the need of the creation of some central governmental agency permanently established and properly equipped for the purpose of standardizing methods, preventing duplication, simplifying processes, and increasing efficiency: Now, therefore, be it

"*Resolved*, That the Chamber of Commerce of the United States hereby approves the proposal submitted by the Chamber's Committee on Budget and Efficiency that the Congress create and the President appoint a commission composed of disinterested persons, preferably not actively connected with the Government, to which the President may look for suggestions with regard to such

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measures of permanent as well as temporary administrative organization as may seem to him to be desirable."

SPECIAL COMMITTEE ON BUDGET AND EFFICIENCY
OF THE CHAMBER OF COMMERCE OF THE UNITED STATES,
W. L. CLAUSE, *Chairman.*

APRIL 18, 1919.

The CHAIRMAN. I wish you would also supply the committee with information as to the personal experience with public finances of the members of the committee, and whether they have served in State legislatures, or in Congress, or in any other public capacity, so that we may know if their experience has been in public finance.

Mr. BELCHER. I would be very glad to provide such information to the committee. I could state personally what the experience of the members of the committee, as it now exists, is. Mr. W. L. Clause, the chairman, is president of the Pittsburgh Plate Glass Co., and has been president of the Chamber of Commerce of Pittsburgh. Mr. Paul W. Brown, of St. Louis, is the editor of the St. Louis Republic, I believe.

The CHAIRMAN. Was the editor?

Mr. BELCHER. Was the editor.

The CHAIRMAN. It no longer exists?

Mr. BELCHER. It no longer exists; that is true. Mr. C. K. McClatchy, of Sacramento, is the editor of the Sacramento Bee. Mr. W. H. Cowles, of Spokane, is a newspaper editor of Spokane.

The CHAIRMAN. The Spokesman Review?

Mr. BELCHER. Yes; the Spokesman Review. Dr. Frank J. Goodnow, of Baltimore, I presume all of you know, is president of Johns Hopkins, and was a member of President Taft's commission on economy and efficiency. Mr. Herbert G. Stockwell, of Philadelphia, is an accountant. Mr. George G. Tunell, of Chicago, is connected with the Atchison, Topeka & Santa Fe Railway.

The CHAIRMAN. He is one of those who does not approve the report.

Mr. BELCHER. Mr. W. F. Willoughby, of Washington, you all know. Mr. Willoughby was here yesterday.

Senator EDGE. Enlarging on your question, Mr. Chairman, or rather, the question brought out by Senator Keyes, I have just looked over the referendum as submitted, and, as I take it, you did not give them an alternative proposal. You apparently lay out an executive budget, as you have generally described, and then ask them to vote yes or no, and they would not have had the opportunity to consider the various plans for a budget.

The CHAIRMAN. Some of these men, like Mr. McClatchy and Mr. Cowles, I know, and I think it might be prudent to send them both bills, and any other suggestions that we have, for their examination and judgment.

Senator EDGE. I suggest, Mr. Chairman, that you send these two bills to this committee of the Chamber of Commerce, in order that they may see what we are considering. The question of the necessity for a budget has long passed back of us.

Mr. BELCHER. The present bill, Senate bill 3476, was not considered by this committee because it had not been introduced at the time. The former bill introduced by Senator McCormick was considered by the committee in June. The proposal to have the budget bureau

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under the jurisdiction of the Secretary of the Treasury, as against the proposal to have it under the immediate jurisdiction of the President, was considered at a meeting of the committee held in June of this year.

Senator EDGE. What was the result of that consideration?

Mr. BELCHER. The result of that consideration was approval of the principle of having the budget bureau under the immediate jurisdiction of the President, not of the Secretary of the Treasury.

The CHAIRMAN. That is the meeting at which I asked what members were present.

Mr. BELCHER. The members present at that meeting were Mr. Clause, as I remember it, Mr. Willoughby, and Dr. Goodnow.

The CHAIRMAN. Mr. Clause, Mr. Willoughby, and Dr. Goodnow?

Mr. BELCHER. Mr. Clause, Mr. Willoughby, and Dr. Goodnow. I do not think there were any other members of the committee present at that time. All of the members of the committee were advised of the conclusions of the committee on the various proposals that were then pending in Congress.

The CHAIRMAN. I merely want to suggest that Dr. Goodnow or Dr. Willoughby might have an academic bias going back to the period of the Taft commission, without prejudice to their integrity of intention.

Mr. BELCHER. The plan proposed by the committee is outlined on pages 4, 5, 6, and 7 of this pamphlet. I shall be very glad to supply the individual members of the committee with copies of this pamphlet, which contains, in addition, the resolution adopted at the St. Louis meeting. The proposals are made as simply and as clearly as the committee was able to make them. They have been condensed so that the fundamental principles could be outlined and clearly understood. That is the program which the chamber supports.

I would call your attention to the fact that action upon the budget consists of two stages, the formation of the budget by the President, and action upon the budget by Congress. Certain definite steps are outlined in the program, and definite recommendations are made as to the sort of information which should be submitted to the President, and by the President to Congress, and of the reorganization of congressional methods in acting upon appropriation and revenue measures.

Pages 4, 5, 6, and 7 contain that outline.

The CHAIRMAN. Have you any further statement?

Mr. BELCHER. I think that covers what I have to submit on behalf of the chamber. I should like to emphasize again, Mr. Chairman, the fact that the position of the committee is based upon the proposals contained in referendum No. 1.

The CHAIRMAN. What do you call referendum No. 1?

Mr. BELCHER. That is a referendum which was taken in 1912 on the national budget plan.

The CHAIRMAN. It does not appear in this pamphlet?

Mr. BELCHER. It does not appear in this pamphlet. I have here with me only the official copy. I can, however, I am quite sure, find another copy, which I shall be very glad to file with the committee for its information, showing exactly how this position of the organization members of the chamber was reached.

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Senator KEYES. As I understand you, the date of that was 1912.

Mr. BELCHER. 1912; yes, sir. The referendum was issued in November, 1912, and the vote closed on the 14th of January, 1913. Of course, that was several years ago. On the other hand, as I stated, the chamber, at its annual meetings, has frequently indorsed the proposition as submitted in 1912.

The CHAIRMAN. Of a budget?

Mr. BELCHER. Of a budget. If the committee has any questions it wishes to ask in regard to the proposals in this pamphlet of May, 1919, I would be glad to answer them if I can.

Senator KING. There is one phase of this question that has always been paramount with me, which none of the experts have explained satisfactorily. The Executive, the executive agencies and departments of the Government are always seeking to increase their power, functions, and jurisdiction, multiply offices, and increase the number of instrumentalities and bureaus, and they have projects, some of which are fantastic and visionary, and some of which are sensible and rational, which they are submitting constantly to Congress, and for the schemes which they suggest there must be adequate appropriations, and the tendency of the Government departments has been, and always will be in this Government, for greater and larger appropriations, and it has been the function of the Congress to curb the Executive, rather than for the Executive to curb the legislative branch of the Government. I do not see any plan or suggestion of any budget scheme that takes sufficient account of that factor in this problem. You seem to suggest that we have a budget system here just the same as you might have in some private business, or as Great Britain has it, where the form of parliamentary government is entirely different from what is in the United States.

Then you do not seem to take into account the fact that Congressmen and Senators representing various States and districts of the country are all the time projecting schemes which call for very large appropriations. There will be an appropriation bill submitted by the Rivers and Harbors Committee. No budget system could provide for what is going to be asked by the various Senators and Congressmen for their congressional districts or for the States in which they live; you can not tell what is going to be asked by the people for public buildings, and what the Congressmen and Senators are going to ask for their respective districts for public buildings. It may be millions and tens of millions and hundreds of millions of dollars each year appropriated for these purposes and others.

There is the question of good roads. We appropriated $200,000,000 last session for roads. With the inordinate demands of the people to place on the Federal Government the discharge of duties which belong to the States, as, for instance, in the construction of roads in the States, what will a budget system do to meet a situation such as I have so imperfectly suggested?

Mr. BELCHER. The virtue of a budget system in meeting extravagant or inordinate appropriations lies in the fixing of responsibility. Under the plan of an executive budget which, however, leaves with the legislature the power to change either upward or downward the recommendations of the Executive, you have, first of all, a pro-

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gram as to what the Chief Executive proposes to have done or wishes to have done for the succeeding year. That is the proposal of the Executive branch of the Government.

Under a proper budget system such a proposal would be submitted in such form that it could be clearly understood by Congress, and each part of that program could be understood with reference to the other parts of the program, and the relative importance of the various proposals and the relative cost of the various proposals could be comprehended. They can not be to-day.

You therefore have, first of all, the program issuing from the executive. Next, you have Congress considering this program. The public understands and can understand from such a program what the cost of the Government would be approximately for the coming fiscal year. Now, Congress receives this program and it proceeds to tear it to pieces. Congress has a perfect right to tear it to pieces. We would not take that away from Congress for a moment, but there you have an issue clearly joined, and it is made clear.

Senator KING. Have we not substantially that issue now? The heads of the bureaus report to the department heads; the department heads, presumably, and I have no doubt they do, go over with all of the bureaus, agencies, and subdepartments under them the suggestions for appropriations, and they figure the number of employees it will require; the amount of appropriation for this extension, for that agency, and for this instrumentality; and then finally they have a conference of the bureau chiefs and the Cabinet officer, and they agree upon a program.

Then they pass that to the President, or to the Secretary of the Treasury, and he compiles, in part at least, these various recommendations, and if not, they send them to Congress themselves, and the President usually O. K's them since he has not the time to go over all the requested appropriations by the department heads, and he says in his message, he therewith transmits, or there will be transmitted, the report of the Secretary of the Treasury or the report of the Secretary of the Interior, with various recommendations, and that he recommends them to the attention and consideration of Congress.

Now, it seems to me that we have got a check now that you have not referred to. We have got the President as the chief executive head, and the executive heads of the departments called upon now to make estimates which they do make and which they submit to Congress, and which Congress fortunately does tear to pieces, and reduce to the extent of hundreds of millions of dollars annually. I do not see very much of an improvement in many of the suggestions which I have heard over the existing situation.

The CHAIRMAN. May I make a statement on that point, Senator? Were you here when Gov. Lowden was speaking on the budget and of their experience in Illinois?

Senator KING. No.

The CHAIRMAN. Our system is very much like the one the chamber has proposed, except that the preparation of the budget is confided to a director of finance who corresponds more nearly to the Secretary of the Treasury, divested of the Treasury's nongermane functions. Since it is his purpose to hold estimates down, and since he sits continuously in consultation with the spending departments, he acts as

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the agent of the governor, and very few disputes ever reach the governor. He points out, "You might save this, and you might save that." The result has been that although our cost of government was increasing at the rate of 200 per cent per decade before we adopted this system, the increase has been absolutely stopped after its adoption.

I do not mean that the legislature accepted absolutely in detail the estimates submitted. It did not. But where in one instance it increased an appropriation, it was so jealous of its credit before the people that it reduced another in something like a corresponding amount. The issue was clear. The legislature had the power to add to the sum of the executive estimates, or to reduce them, and it was very careful not to add to them.

Mr. BELCHER. You have fixed the responsibility for the budget upon the governor. The budget appears before the legislature as the recommendation of the governor?

The CHAIRMAN. The budget is laid before the governor by the director of finance.

Mr. BELCHER. Exactly.

The CHAIRMAN. And the governor transmits it with his recommendation that it be adopted.

The CHAIRMAN. Mr. Fitzgerald, will you give your name and address to the stenographer?

STATEMENT OF MR. JOHN J. FITZGERALD, 111 BROADWAY, NEW YORK, N. Y.

Mr. FITZGERALD. John J. Fitzgerald, 111 Broadway, New York.

The CHAIRMAN. Will you tell the committee for how many years you were a member of the Appropriations Committee of the House, and for how many years its chairman?

Mr. FITZGERALD. I was a member of the House 19 years, a member of the Committee on Appropriations 13 years, and chairman of it for seven years.

The CHAIRMAN. Mr. Fitzgerald, you have already expressed your opinion on the subject of a budget, but the committee would be grateful if you would summarize your views in a statement at this time.

Mr. FITZGERALD. Mr. Chairman, in 1913 I delivered a speech in the House of Representatives upon what I believed to be the reforms that were essentially based on my experience, and in that speech I reviewed the history of the changes in the procedure of the House of Representatives, as well as the then existing laws governing the submission of estimates and the preparation of appropriations.

It was considered as a somewhat comprehensive review of the entire situation, and as the speech was prepared in cooperation with the then clerk of the Committee on Appropriations, Mr. Courts, who had been connected with the committee 37 years and was probably the best-informed man on our fiscal system in the United States, it really contained considerable historical data, as well as information of considerable importance to men who are interested in this subject.

At that time the important reform, from the standpoint of Congress, that I advocated was the consolidation in a single committee

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of the work of the consideration of estimates and recommendations of appropriations, and the experience of men who have been connected with the recommendation of appropriations for the various governmental services is to this effect, that if a committee which has jurisdiction over the legislation for a department also has jurisdiction over the appropriations for that department the inevitable tendency to endeavor to make their legislation successful results in undue caution in giving ample funds in order to permit the legislation to be carried out according to the views of its proponents, and in time the result is that where a committee deals with the business of a single department of the Government it becomes in effect the representative of that department in the particular body where it sits rather than as the independent and impartial critic of the department's functions.

More than that, I have known instances in my experience when the appropriation bills for a particular department were practically written in the department itself and the committee merely went through the perfunctory task of ratifying what the department requested. An examination of the hearings conducted before the committee discloses that there is no attempt upon the part of the committee to ascertain the real facts or reasons for the recommendations, but, rather, it is an attempt to prepare a brief in defense of the appropriations that are to be made. When one committee has jurisdiction of all the appropriations they are confronted with the fact that there are so many requests that can not be granted, there is so much asked in excess of what will be available, that the committee never is put in the position where it becomes the representative of any particular department, and it is able much beter to attempt to determine the relative importance of the numerous requests that are made.

There are a great many activities of the Government that could be abolished without any serious harm whatever to the proper conduct of the Government. It is a question of relative desirability of many activities of the Government, and when the appropriations are to be made, if these can be balanced one against the other, making allowance for the natural prejudices of men and their natural bias in favor of one service as against another, the result is that in the long run the least desirable services are eliminated or curtailed.

I printed in the speech to which I referred an article published by, I think it was, Dr. Updyck, who was connected with the Bureau of Education, in which he pointed out the fact that the Bureau of Education had not grown to become an enormous department of the Government by reason of the fact that its appropriations were controlled by the Committee on Appropriations, which was not friendly to any service in the Government, while a number of other bureaus that had needs which were looked after by some committe that was specially charged with the duty of legislating for and appropriating for the department had grown with rapid strides until their appropriations were on a very enormous scale.

During my service on the committee there was very considerable agitation, as there is now, for budgetary reform. One of the difficulties we had was in attempting to find a definition of the budget with which a number of advocates would agree. We have to-day on the statute books a number of laws which create or make possible

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a true budgetary system, if they be enforced, but they are not enforced and they are not lived up to. Under the various laws we have the legislation for the proper preparation of estimates, their corelation arrangement, and their submission to Congress. Under the so-called Smith amendment of 1904, the Secretary of the Treasury, when he prepares and has ready for submission to Congress the estimates of the revenues and appropriations, if the estimated appropriations are in excess of the estimated revenues, he is required to transmit that information to the President, to enable the President to act so as to inform the Congress how the estimated appropriations can be diminished without injury to the public service, or what new loans or taxes shall be resorted to by the Congress in order to supply the necessary money. That provision of law has never been observed since it was written on the statute books.

The CHAIRMAN. Because it presumes that the President will have time to direct the details of his own fiscal policy?

Mr. FITZGERALD. But that is one of the difficulties. I know of an instance when this matter was called to the attention of one of our Presidents, and it was suggested that very considerable reductions could be made in the estimates, and he had a hearing of his Cabinet and every member of his Cabinet solemnly assured him that, as a matter of fact, the requests made of Congress were practically inadequate for the proper conduct of the various departments, and they had kept them within those limits in order to avoid any extravagance during the year.

We pointed out that at least $80,000,000 could be eliminated without the slightest difficulty, and that much was eliminated by the Congress, and I never knew anyone to contend that the Government suffered in the slightest respect as a result of the failure to give that much money.

But there are some things that can be done which, in my opinion, would aid materially in controlling governmental expenditures. Of course, there will continue to be increased expenditures, due, first, to the natural growth of the governmental activities, and, secondly, due to the tremendous tendency of the present day to have the Federal Government assume innumerable functions that properly do not belong to it, and so long as the country insists upon its being done, it will result in largely increased expenditures, but I believe that some machinery could be created and put in a department of the Government that would result in considerable benefits.

I do not sympathize with the suggestion that a budget bureau should be placed under the President. I do not believe it will have much beneficial result. The President is the business man in the world. Unless he has some peculiar incentive for fiscal affairs, he does not wish to be annoyed with them.

Senator EDGE. Following your suggestion that we have one single committee on appropriations, what was your plan, then, that they might receive the detailed technical information necessary? A Congressman is a rather busy individual also.

Mr. FITZGERALD. I did not mean, Senator, one joint committee of the two Houses; I meant one committee.

Senator EDGE. I understand, but how would you prepare the detailed information for them? You just stated that you did not believe in a budget commission under the President. I presume you

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have some plan in your mind for some kind of agency to cooperate with this committee.

Mr. FITZGERALD. What I suggested was that an organization should be created in the office of the Secretary of the Treasury, and make the Treasury Department a real fiscal department of the Government. When John Sherman was Secretary of the Treasury—I think it is in his report for 1873—in transmitting the estimates to Congress he called attention to the fact that the estimated appropriations were $11,000,000 in excess of the estimated revenues, and he said he transmitted them without change because of the very considerable doubt that any power existed in a Secretary of the Treasury to revise the estimates of the departments of the Government; and it is an unfortunate thing that he did not at that time attempt to exercise that power and establish that right.

When it is said that the Secretary of the Treasury can not or should not be permitted to pass upon the estimates submitted by the heads of the departments, we seem to lose sight of the fact that it is an administration matter, and that some place in the administration the power should be centered to revise and arrange and to determine the policy of the administration for the expenditure of the public revenues or to determine the policy of the administration in the collection of the public revenues.

Of course, the President, in a general way, can oversee and pass on the big questions of policy, but it should not be considered a reflection, and if it should be considered a reflection, that would be sufficient reason for a man not accepting office, for one member of the Cabinet to be required to have the estimates that he prepares for the conduct of the business of his department revised by a department of the Government that would be in full control of the fiscal affairs of the administration. On questions of policy, that could be thrashed out in the Cabinet or with the President, but there ought to be some one place where this power was lodged, and it ought to be in some place that Congress may reach.

If the President is given this power and does not exercise it, neither House of Congress will ask him to come before a committee. There is considerable reluctance in criticizing the President. Not only that, but there is the political obstacle of having that effective criticism of the President that never exists in the case of proper criticism of a member of the Cabinet, because in the case of the failure of a member of the Cabinet, if he does not function properly, the President protects himself by removing the head of the department, but a whole party will suffer if the President is so criticized that it embarrasses the party or administration.

The Secretary of the Treasury is the only member of the Cabinet who reports directly to Congress, and in all my experience Members of both parties in Congress never had the slightest hesitation in criticizing the head of the Treasury Department, whether he belonged to their own party or not. But the President is more the political representative of the party, and in a government by parties the natural thing is to defend and protect him, and very frequently I myself at times, when I would feel that there would be proper justification for criticism, was impelled by the overwhelming necessities of the occasion to testify on something else which perhaps I might not have

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done had not some one been present. I can speak for myself, and that relieves everybody else.

The CHAIRMAN. You have not been the only person placed in that position. I can testify of my own experience.

Mr. FITZGERALD. To put that power in the Treasury Department and to make the Secretary of the Treasury the responsible officer before the country and the administration, and have the country and the administration know that he had to have a fiscal policy which represented the administration's policy, and that he was the man that could be reached and who could be proceeded against by Congress in any way, in my opinion, would result in a number of very important reforms being effected. I would then, in connection with that, take some bureau or some organization similar to the Bureau of Efficiency, that at times we have found to be very useful, and attach it to the two Houses of Congress, and have it sort of clothed with a roving commission to go in where the committees wanted information and make an investigation, independent of the administration, for the information of the Congress.

The CHAIRMAN. On that point would you advocate the substitution of a joint committee on expenditures for these existing and atrophied committees on expenditures in the several departments?

Mr. FITZGERALD. Senator, my experience and observation has been that joint committees of the two Houses do not accomplish much. I think it is an important thing that the House of Representatives, charged as it is under the Constitution with the duty of originating revenues, ought to perform its duties and functions separately.

The CHAIRMAN. Would you make this bureau of efficiency responsible in some way to the committee of the House itself?

Mr. FITZGERALD. Well, if there was such reform as I suggest, and with the members of the committees in both Houses, the two Committees on Appropriations in the Senate and House, there was an organization that would be developed and built up and would go with the organization of those committees, unchanged by reason of a change of political control in the House, that represented the congressional viewpoint, and when information was desired that could not be obtained by the committees because of the magnitudinous details and difficulty of examination, could be sent in to make an examination and report on some particular thing, it would be of material assistance.

Senator EDGE. Following your plan, if the Department of the Treasury is the collecting agency of all the estimates from the other departments of the Government, is it your view that it should be delegated with the power of pruning all those estimates, and finally recommending them and transmitting them to Congress with all changes which it, as the financial department, should deem wise and necessary?

Mr. FITZGERALD. I think there should be some place in the Government machinery that would review the independent action of the other departments and express the belief as to whether the appropriations——

Senator EDGE. Of course, I agree with you that there must be some department to do that, but I am just trying to get further from you why you feel the Treasury Department would answer that require-

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ment. Do you not think that the Treasury Department being one of the portfolios in the Cabinet, there might be more or less jealousy between the departments if it was a part of your system that it should take the War Department budget, for instance, requisitions or estimates, or whatever you might term them, and go all over the necessity for new forts and more ordnance, and the many other expenditures that would come in under the budget of the War Department, and finally, entirely within its own control, transmit it to Congress as its view of the necessities of that department? Do you think that would work?

Mr. FITZGERALD. I do. I would strip the Treasury Department of a lot of activities that have no relation whatever to the fiscal department of the Government, and then, on these activities of which you speak, Senator, the question of the size of the Army, of its activities, and whether it should be armed with a new weapon, or whether certain new devices should be adopted is, first, a military problem. After that question is passed on by the military experts it ought to be a matter to be determined as a matter of the administration's policy, and after that is done the question of the speed with which certain changes are made, as far as spending of money is concerned, is purely a fiscal problem, and it might be found that you would need to raise considerable revenue to carry out a program at a certain rate, or you might have to defer it over a number of years.

For instance, if we should determine now to change our primary coast defenses and put in, instead of the 12-inch rifle, a 14 or 16 inch rifle, it would involve a very enormous expenditure of money. The present system of coast defenses originated with the Endicott board, in 1886, and was carried on and revised by the Taft board in 1903 or 1904. If a new system were proposed it would involve a very large expenditure of money, and the question would be the time within which the entire project was to be completed.

Now, it might be that there would be reasons for the proposal to hasten the work. That might necessitate the increasing of our taxes or borrowing more money, or it might be desirable to extend the reform or the change over a number of years. Of course, we have always had this trouble. We have never adjusted our taxation system according to what we proposed to expend. We have raised our revenues without any reference whatever, until the war came along, as to what our expenditures were to be. The bulk of our revenues for a great many years came from the customs service, and depending upon which particular political party's theory was in force, there was a certain sum or a less sum.

But now the customs return are an insignificant sum of the needed moneys for the Government. And when the estimated appropriations were prepared by the departments no one ever cared or thought whether there were funds in the Treasury or whether there would be in order to meet them. It seemed to be the business of Congress, if it appropriated money, to see that the money was in the Treasury to be expended.

As far as the administration was concerned, there was very little consideration at all given to where the money came from, in my experience in Congress.

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Senator EDGE. Do you disapprove entirely of the system provided under the Good bill—the so-called Good bill?

Mr. FITZGERALD. No; I would not say that.

Senator EDGE. That is entirely an executive budget, with an executive commission.

Mr. FITZGERALD. I do not consider the proposal to place a bureau directly under the President at the head of it as a sort of confidential system, or secretary to the President, is going to be effective. There is not anybody who is going to be sufficiently close to the President in that capacity who would be able to sway the President against some dominating, forceful member of the Cabinet.

Senator EDGE. Is it your view that this efficiency board or budget board, whatever you call it, shall be employed by Congress and the Appropriations Committee directly to investigate all the details of the various estimates, rather than having it under the Treasury Department? Which of those plans would you prefer?

Mr. FITZGERALD. No; I do not think that could replace the other. I think it would be an aid to the committees but there must be this preliminary preparation and investigation.

We had an experience, Senator, some years ago that shows you what can be done. Secretary McVeagh was Secretary of the Treasury and Mr. Norton was Assistant Secretary of the Treasury. They decided they were spending too much money in Washington in the departmental service in the Treasury Department, and when they prepared the estimates the head of each bureau was called for by Mr. Norton and told he had to reduce his estimates so much, and they all protested that they could not reduce them at all. He told them to take them back and try. They all brought them back and said they could not. He said, "Give me a pencil. I will show you how to do it." He then at random struck out a number of items and said, "Fix them up, and that will be your estimate." They said, "You are ruining our service. Let me take this back and I will see what I can do." He said, "All right, we will have it cut down this way." In three years they eliminated 500 employees and reduced the cost of conducting the Treasury Department over $400,000, without discharging a single employee, and that could have been done by the same means or method, only in a much more striking degree, in every department of the Government at that time. They simply did not fill vacancies that occurred during the year, and at the end of the year they had all these vacancies, and then they rearranged and transferred such persons as were in the service, and never dismissed anybody, but just dropped these different positions, and there were approximately 500 places, and an expenditure of between $400,000 and $500,000 eliminated in three years by that kind of work in the Treasury Department, which was the least notorious for the conditions that were complained of.

That could have been done in any other department where the proper effort was made.

Senator EDGE. Since your days we have gone from a billion dollar Government to a five billion dollar Government, and there must be very much greater authority.

Mr. FITZGERALD. But no one wishes to curtail the activities of his department. Everybody wishes to enlarge them, and Congress is

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not wholly without fault. One of the troubles is that we all want economies at some one's else expense, and that is why there is not much success in doing it, and it is not a popular thing to be an advocate of economy. I know that when I was in public life my closest personal friends were always advising me that I was making a mistake; that it was not popular to be an economist. Nobody wishes to pay the taxes, but everybody wants the Government to spend money on the things that they think will benefit them and to economize on something they are not interested in, and the result is that under that system and theory you get enough support for outgo, but very little to cut off or check up the expenditures.

We had under President Taft an efficiency commission, and President Taft attempted to supervise and curtail the submission of estimates, and there were a number of hearings held before him, but it was like trials in certain parts of the country where no objection is ever sustained that is interposed on behalf of the defendant, and they said they were invariably convicted.

As a result of all the hearings, the result would be that the Cabinet officer always won out, no matter what was said in the course of the hearing, and that is the natural thing. If a man is a member of the President's Cabinet, either his judgment as to the needs of his department must dominate over some subordinate in any place or else he has so forfeited the confidence of the President that he can not in decency stay at the head of the department, while the head of a department charged by law with the duty of revising these estimates puts the situation in an entirely different aspect.

Senator EDGE. Do you not see right there the possibility of a close relationship of the Cabinet officers and their general tendency, as I understand it from the outside, to rather defer to each other's judgment in the conduct of the business of the separate departments, and that it would put the Secretary of the Treasury in a rather embarrassing position, to say the least, to finally be the officer who would tell the Secretary of War and the Secretary of the Navy, whose functions, ordinarily speaking, he knows little about, that they shall not have so much, but that such a sum shall be their estimate?

Mr. FITZGERALD. It ought not to be embarrassing to any man to do what the law requires him to do.

Senator EDGE. You mean if he were a member of the President's official family he would not have that embarrassment?

Mr. FITZGERALD. It is not nearly as embarrassing for him to do that as to try to justify his failure to do it before the committees of Congress.

Senator EDGE. I know, but human nature is very strong.

Mr. FITZGERALD. I have known of members of the Cabinet who have come before committees of Congress and declared that they would never come back unless dragged by a subpœna, and they never did; but this Treasury official would be back because he would have to come back.

There is, in my opinion, a lot of idealism and rot about one Cabinet member not being subject to supervision by another one. Simply because they go into the Cabinet does not put them on any different plane from the rest of mankind. They seem to think they should be above criticism or control.

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The CHAIRMAN. In nearly every other government of the world the officer who corresponds to the Secretary of the Treasury exercises this authority in revising the estimates of his colleagues in the Cabinet.

Mr. FITZGERALD. It might result in this, that one of the important things an administration would do every year would be to seriously consider its fiscal policy and to determine in advance about what the Government could afford to expend during the fiscal year and to discuss in the Cabinet the amount that might be allotted to each department before the Secretary of the Treasury would be called upon to exercise any of the functions imposed upon him by law; but now there is no cooperation, no consideration by him. Each department goes haphazardly along preparing estimates for its service and pays no attention to the needs of any other department, pays no attention to the question as to the relative importance of his activities as compared with some other, and never considers at all whether the funds available for expenditure will meet the demands that they are making on Congress.

The CHAIRMAN. I have heard it said that we ought to make such and such an appropriation for the naval air service in order that the Navy might have as much to spend on the air service as the Army, and that we ought to fix titles and emoluments for the superior officers of the Navy on a scale not justified by the service, but as lavish as that fixed for the Army, because, as one Senator said, we want to have everything just as good and just as highly paid for in the Navy as in the Army.

Senator EDGE. You propose to have the Secretary of the Treasury the umpire over those things?

The CHAIRMAN. I do, as in every other civilized government in the world.

Mr. FITZGERALD. Senator, it does not make much difference what we call him, that power should be some place.

Senator EDGE. Undoubtedly it must be some place.

Mr. FITZGERALD. Congress during the war period has vested the President with innumerable functions. It seemed to be taken for granted that if you just reposed this extraordinary power of some kind or another in the President, that you would have assurance or a guaranty that it would be properly exercised.

Senator EDGE. He has to make the decision anyhow; it is his job.

Mr. FITZGERALD. Everybody knew that he could not possibly exercise the powers given him and that he was going to delegate them, and while you were giving him the power you were really protecting the man who was going to exercise it from proper criticism and scrutiny, because he would be exercising delegated powers, and if anything was said he would say, "This is the President's act," although the President would have to act in a perfunctory way, I take it.

Senator EDGE. The President must be finally responsible for the larger policies of the Government.

Mr. FITZGERALD. It has not worked out very satisfactorily.

Senator EDGE. You will have to change the constitution if you do not hold him responsible.

Mr. FITZGERALD. There are many mistakes, and the trouble is that the man who ought to be criticized and censured always can take refuge in the plea that it is the act of the President. As a matter

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of fact, the President knows nothing at all about it, and can not. It is impossible for him to become familiar with all of the things that are done in his name. He is responsible for the acts of his administration or his officers, but the only way Congress ever accomplishes anything is by getting at the individual who exercises the power that is reposed in him.

The CHAIRMAN. I want to go back a moment to your reference to what we might call a collective fiscal policy on the part of the administration, because it seems to me that the establishment of such a collective policy by conference in the Cabinet is one of the great reforms to be accomplished by imposing this duty upon the Treasury. And let me put a final hypothetical question: We have come to a period in our national life when increasing the income of the Government is a problem. We have come to a time when we must fix our expenditures with some relation to the possible revenue. Is it not clear that if the Treasury exercised the powers contemplated, that in making a preliminary survey of the needs of the Government and in making a preliminary balance to carry out the party's policies, the Cabinet, in conference with the President, would receive from the Secretary an estimate of the revenues in prospect, and they would decide whether they wanted to reduce the taxes or whether they wanted to expend as much or more than the revenues contemplated, and that then, in conference with the President and the Secretary of the Treasury, they would allot to the Department of Agriculture, the Department of Commerce, the Navy Department, and so on, the sums which, in their collective judgment and experience, they thought necessary. Is not that your judgment as to the way it would work?

Mr. FITZGERALD. It would work out in that way. You take the British system. Of course, I do not think we can adopt their system, but when the chancellor of the exchequer makes his budget speech he announces the expenditures for various services, and he announces the amount that it is expected the existing revenue laws will produce. He announces the government's program as to new legislation for the obtaining of revenues, and states the anticipated revenues from that legislation, and then they indicate how that revenue is to be applied, either in the reduction of the consolidated debt, or in providing new services not then in existence, so that the country knows just what is proposed; and if they do not wish to have the new services, if they do not wish to enlarge the existing services, or they do not wish to have new taxes, they have notice of what is coming.

We do not know; we can not tell anything about it. The departments do not know when they submit their estimates that that is all they are going to ask. They do not know how they will get on about it, and we have never had that thorough consideration of our proposed revenues and the methods of obtaining revenue in connection with our proposed expenditures, and we never will until somebody is put in a position where his duty will be so disagreeable in its effect upon a number of other important officials that they will be forced.

And that is one reason we believe it is a desirable thing to create such a situation in the Cabinet, in the adjustment of these matters between the members of the Cabinet, that the President himself

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will be forced to determine a number of questions that will affect the fiscal policy of the administration before anything is done in the way of submitting the matters to the Congress. They do not do it. They do not pay attention to it. You can not get them to discuss it. I have tried under the administrations of both parties.

Senator EDGE. You were chairman of the committee——

Mr. FITZGERALD. I was chairman under both the Republican and Democratic administrations.

Senator EDGE. Well, I understand you were chairman when President Taft was President. Did he not take quite an interest in working out a budget system?

Mr. FITZGERALD. Yes; he made an attempt to do some things, but they had a so-called commission attached to his office. They worked two years and spent nearly half a million dollars. At the end of a three-day hearing I asked the head of the bureau how much money he would need and how long it would take for him to complete the investigation that would enable them to make their recommendations. He said that if they had $250,000 for two years more, at the end of that time they would have completed the preliminary inquiry that would enable them to determine the character of investigation that ought to be made, and after four years and the expenditure of $1,000,000, they had just learned enough to tell them the kind of information they ought to go and seek.

That ended them. We abolished them. That was too slow.

The CHAIRMAN. They were academic gentlemen, were they not, some of them?

Mr. FITZGERALD. Yes; they were very sincere, honest men, but did not know anything about the Federal Government and the existing system, and they thought they could completely revolutionize over night the methods of doing business in the United States Government, which can not be done.

Senator EDGE. Well, if it had been made up of men right from the Government, they could have obtained results.

Mr. FITZGERALD. President Taft did this: There is a provision of law that prohibits the submission of supplemental estimates except for the purpose of carrying out legislation subsequently enacted, or because of the happening of some unanticipated contingency that could not have been anticipated, which makes necessary the expenditure of money, and requiring the department to submit with the estimate a statement showing what the expenditure is and the imperative necessity.

President Taft issued an order that no supplemental estimate should be transmitted to the Congress without his approval. Whenever the head of a department or any independent service wanted to transmit a supplemental estimate he had to bring it over to President Taft, and he kept pretty rigid hold on those supplemental estimates until he got to the point where the heads of the departments preferred not to go to him rather than try to get the estimates through, and on the supplemental estimates he did curtail very materially their submission.

You remember the old pension agency system that we abolished and the method of paying pensions. First the voucher was sent to the man, who executed and returned it, and then his pension was sent from some local agency. We abolished the pension agencies and

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adopted the voucher-check system. A man gets his check, and his indorsement is the voucher, and that reform was the result of an investigation that was made by a few experts who were put in the Pension Office, and instead of this old cumbersome system, we had this very effective system, with a very considerable saving. Of course, there was a good deal of difficulty in abolishing those agencies. There were eight or nine of them, and each one meant a place in patronage. There was one over in my own community, where a very distinguished veteran of the Civil War occupied the place. There was a lot of antagonism, but it was absolutely useless and not only a waste of money but a very inefficient way of doing business. None of the executive departments had ever suggested such a reform. They never would. Congress provided for a certain force to make an investigation, and they went in there, and the result of it undoubtedly has been very good.

Then in the organization of a number of these new services sometimes the men put at the head of them have not that capacity for organization along efficient lines that some few men have, and they build up an unwieldy organization, and the result is that in a short time they have so many employees that they are in one another's way, and they interfere and prevent efficient results.

I am not so highly enamored of the efficiency expert as to think that every one is desirable, but I think up to a certain point they can aid in the accomplishment of reforms that are a material help.

The CHAIRMAN. Mr. Fitzgerald, I wonder if we might not ask you to take with you these two bills——

Mr. FITZGERALD. The Good bill?

The CHAIRMAN. Yes; and the Senate bill.

Mr. FITZGERALD. Yes; I just glanced over them, but I did not have a chance to look at them.

The CHAIRMAN. The Senate bill, the bill which I introduced, does not pretend to be the counsel of perfection. It was written and introduced in order that we might have something upon which to proceed, but I am sure the members of the committee would be very grateful if you would take the two bills and let us have any memorandum that you might care to send us.

Mr. FITZGERALD. I would be glad to do that. I could do that without any trouble.

(Whereupon the committee adjourned to meet at 10 o'clock a. m., Thursday, December 18, 1919.)

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NATIONAL BUDGET.

THURSDAY, DECEMBER 18, 1919.

UNITED STATES SENATE,
COMMITTEE ON A NATIONAL BUDGET,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment, Senator Medill McCormick presiding.

The CHAIRMAN. Will you give your name and address to the stenographer?

STATEMENT OF WILLIAM H. ALLEN, DIRECTOR, INSTITUTE FOR PUBLIC SERVICE, 51 CHAMBERS STREET, NEW YORK, N. Y.

Mr. ALLEN. William H. Allen, director, Institute for Public Service, 51 Chambers Street, New York City.

The CHAIRMAN. It is in that connection, then, that you have come to have an interest in the budget?

Mr. ALLEN. Yes.

The CHAIRMAN. Perhaps, Mr. Allen, in your own way you will give the committee something of your views on the question of a budget and the preparation and submission of estimates to Congress.

Mr. ALLEN. Would you rather have such a statement than to take up seriatim several points in your bill?

The CHAIRMAN. That is a matter for your own determination. You might make a comparison of the two bills before the Senate or submit anything you may care to give us.

Mr. ALLEN. There are only two points, in a general way, that I would like to be recorded regarding, and that is that time—prompt action—seems to us to be extremely important. There has been so much talk about a budget, and the country has been asking for it so long, that we feel that it would be extremely unfortunate to go before the electorate again next fall without something very definite having been accomplished by Congress in regard to it.

The CHAIRMAN. I hope, Mr. Allen, that we shall have a budget law of some sort on the statute books before the buds sprout in the spring.

Mr. ALLEN. I am glad to hear it. The second point is that we feel—that is, our office and the group of men associated with us in different cities, either inside of the city governments and State governments or in governmental research agencies—that the most important single factor about successful budget making is the study of needs, and that everything should be done in the law and the selec-

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tion of personnel for administering the law to keep emphasizing the study of what the country needs as a basis for a working program and the so-called budget estimates.

I think we would accomplish more if I would take up the bills. We agree with the basic principles which you have enunciated many times; and if I may first take up the bill which is before you, the Senate bill——

The CHAIRMAN. What section?

Mr. ALLEN. Section 2—perhaps we can come to one or two comparisons with the House bill; but the principles that we question here and the suggestions made apply to the other bill quite as much.

We feel that it is of relative unimportance whether this officer is in the Treasury Department or is directly responsible to the President. There is this disadvantage of having it in the Treasury Department, that that department is very largely an operating department and a competitor fo rthe attention of a budget director. We are glad to see that several of the operating functions are taken out of the Treasury Department.

The CHAIRMAN. Are there others which you would remove?

Mr. ALLEN. Not from the Treasury Department. Well, I am not sufficiently informed to venture a suggestion about removing others from the Treasury Department, but so long as they are there there is a disadvantage of having a department criticizing its own budget estimates in competition with other departments.

The CHAIRMAN. As nongermane functions there remain the Secret Service and the Coast Guard, which originally I contemplated removing, but which I left largely because of the immediate demands upon the department, of which the Secretary spoke when I consulted him, and certain legislation which required enforcement at this time, and especially the vigilance of the department, and he did not feel that the Treasury ought to be deprived of these two police arms, as it were. Otherwise, we have taken everything out.

Mr. ALLEN. Even as it stands, the revenue collection and the surveyor of the port and the collector of the port are big operating departments, where I do not think it is serious. Other things being equal, to have the budget director free from any entangling alliances or any prejudices in favor of one arm of the service would have its little advantage, but we feel strongly—and when I say we, Mr. Chairman, I am speaking primarily without direct delegation from anybody except the chairman of our Institute for Public Service, who is Mr. Julius H. Barnes, and for the group of men who have been trying for several years to apply certain principles to municipal and State budget making—we feel that the question of whether it should be in the Treasury or whether it should be in the President's office is not a big enough question to justify delay in putting through a budget bill.

The CHAIRMAN. Let me ask you on the point of delay, so long as this bill becomes a law before the 1st of June, it is not material when it passes, is it?

Mr. ALLEN. Not at all, except this, that if some bill could be passed in January, I think it would tremendously help the business men of the country to begin to settle down and to cooperate with the Government and to expect action by the Government in several directions. I think the delay in Congress to serve notice on the country by its

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action that it really means business in applying business principles to Government expenditures is causing many kinds of unrest in business.

Under the method of appointment really I was sorry to see a subordinate of the Treasury and two assistant directors of the budget bureau named by the President. If this organization is followed out, we would like to see the Secretary of the Treasury held responsible, and have him name his budget director.

The CHAIRMAN. Who names his assistant directors?

Mr. ALLEN. He ought to select them, even if the President designates them.

The CHAIRMAN. I think that is often the case.

Mr. ALLEN. But I mean under the law the Secretary of the Treasury ought to if he is to be held responsible for the actions of this officer.

The CHAIRMAN. Do you think it is practical to ask the Senate to abandon the power of rejection and confirmation of an officer as important as this?

Mr. ALLEN. I should think it is. If the Secretary of the Treasury is subject to confirmation, and if they want the Secretary of the Treasury to be responsible, it seems to me it is practical to leave to him the designation of his budget director, and we feel very strongly that no one but the director should actually select his two assistant directors who are going to determine the effectiveness of his administration, with the confirmation, if you wish, of the Secretary of the Treasury, but an outside factor who is not going to give it attention ought not to name the two mainstays of a budget director.

The CHAIRMAN. Do you think those assistants ought to be appointed for such terms that they would be continuing officers, even though the director changed with the administration?

Mr. ALLEN. I do not think so. I certainly do not think so if you are going to make them $9,000 men, and make them what you have practically gotten; that is, three collaborating directors, one $10,000 director and two $9,000 directors.

The CHAIRMAN. That is what I had in mind, that they should be almost on a parity in most cases and sit very nearly as a commission, but I did not want to create a commission because of certain weaknesses inherent in commissions with which we are all familiar.

Mr. ALLEN. For this responsibility we feel that the appointing head ought to be free to choose the men upon whom he shall directly lean. That does not apply, in our judgment, to possibly the ten $5,000 men below. We would like those men subject to qualification tests; otherwise it seems clear to us that your budget director will spend a good part of his time interviewing Congressmen and Senator and friends of both, and party officers, seeking to place men in these $5,000 positions.

The CHAIRMAN. Let me ask you, would you select them under the normal methods of the Civil Service Commission?

Mr. ALLEN. Here is a chance, with a little rewording of law, it seems to us, to do a service to the merit system or qualification system of the civil service all over the country.

The CHAIRMAN. Will you send me a memorandum of an amendment to that effect?

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Mr. ALLEN. Yes. Under section 4 we feel, from what we have seen in several States and cities, that to have the head of the department name any other person as the budget officers of a division is inviting disorganization and conflict within the division. He ought to have his divisions so organized that the head of the divisions would be the program maker and the budget estimater for the division, and are you not running the risk—I do not mean to ask you a question, Mr. Chairman.

The CHAIRMAN. Do ask it.

Mr. ALLEN. It seems to us that you are running the risk of building up within a division conflicting forces where a $1,800 clerk or a $2,400 clerk will, in practice, be able to snap his fingers at the head of the division, and you will have them paid maybe not by officers responsible for getting results, but by persons designated who may not be the ones who know the real working of the department.

The CHAIRMAN. Let me ask you on that point what would you think, then, of creating a single budget officer, as indicated under the heading B, for the department, who will be the fiscal agent of the Secretary of the Treasury?

Mr. ALLEN. I think you would lose there one of the most important possible advantages of this whole budget plan, namely, forcing back responsibility for study upon everybody who has anything to do with the department's work.

The CHAIRMAN. Let me give you an interesting example of that which happened the other day. The Bureau of Plant Industry, I think it was, prepared an estimate that included an item of $40,000 for nut culture. The Secretary reduced it to $20,000. The head of the Bureau of Plant Industry appeared before the committee and had it restored to $40,000 on the ground that the Secretary himself had not been able to give it proper consideration, and on the ground that he had no agency especially authorized and especially equipped to consider these items.

Mr. ALLEN. The cure for that is to say to the Secretary that you expect him to so organize his department that his deputies——

The CHAIRMAN (interposing). If you do not require the appointment of a fiscal deputy, you permit him to go and get one?

Mr. ALLEN. The fiscal deputy must be the one that the Secretary listens to most.

The CHAIRMAN. Is it not within his own choice?

Mr. ALLEN. Except that if you say that he must name a special assistant, you are practically adding new functionaries to every department, or, as it stands now, two functionaries. We believe that there is danger that instead of toning up a large organization and forcing the load where it belongs, you are adding two more fifth wheels in each of these departments.

The CHAIRMAN. Let me ask you what is the British practice?

Mr. ALLEN. Senator, I have done the best I could to keep from familiarizing myself with the details of the British practice, because I think we have got a pretty thoroughly twisted notion. The British budget has broken down as seriously as our own. I have read it, but I do not know the details.

In section 5 we are sorry to see that provision, because, if your $5,000 men apportion out to the departments, it will be a mighty

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short time, unless the experience of several cities and States is departed from, before they become special counsel to the department instead of objective analysts for the director.

The CHAIRMAN. Would you strike that whole section out?

Mr. ALLEN. Yes. I do not see any advantage in that section at all, but a serious handicap to the director. Those men must be analysts, and it often happens that you will get the very best results by putting a man on something that he has never been on before.

The CHAIRMAN. And changing from time to time?

Mr. ALLEN. Yes.

The CHAIRMAN. I think that criticism may be very well taken. You do not want to discuss sections 6, 7, and 8?

Mr. ALLEN. I am very glad to see those, and especially glad to see the provision in section 7 that any special, supplementary, or additional estimate shall show the reason for the emergency.

Under section 9 we feel that requiring action by the Secretary of the Treasury before the estimate can be submitted to him again will discourage departments from listing the needs that ought to come to the attention of the Secretary and ought to come to the attention of the Congress.

The CHAIRMAN. Just let us get this. What line are you referring to?

Mr. ALLEN. Line 6. We feel that when this comes to Congress you ought to have the director's diagnosis of the needs, from the standpoint of the Treasury. Side by side with that, you have the Secretary of the Treasury, if he is the officer, stating the reasons for the decrease, but these ought not to be concealed from Congress——

The CHAIRMAN. The fact of the demand?

Mr. ALLEN. The fact of that demand.

The CHAIRMAN. Will you prepare an amendment representing your view?

Mr. ALLEN. Yes, sir. Under section 12, we do not know the ideology of this exemption, but from such knowledge as we have of the discussions of the last several years we do not see how the country can fail to be tremendously disappointed if the river and harbor improvements are not subject to the budget director's analyses instead of being exempted from them.

The CHAIRMAN. Except that they have been things apart hitherto, and pending the creation of a department of public works, which seems to me, personally, inevitable, if we are going to curtail these expenditures, we wanted to deal with them as peculiar and segregated estimates.

Mr. ALLEN. They are not for the normal administration of the Government, and I can see why you would have them separate, but why have them without change, or if you want them without change why not require that there shall be a report upon them? If there are practical reasons why they should not be changed, at least secure from the budget commission a statement of facts that will help Congress to deal with them.

The CHAIRMAN. Let me add to the second sentence of that section a further requirement that the Secretary of the Treasury shall add his comment to the statement of facts required.

Mr. ALLEN. That, as an alternative to putting it under the budget plan, I think would strengthen it greatly.

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The CHAIRMAN. It seems to me, of course, that now that the Secretary of War has real functions germane to his office we ought to relieve him of all the responsibility for great civil undertakings. It is all wrong, and I am conscious of the weakness of that section, and yet I hesitate to institute a minor revolution when I think a major one ought to be carried through.

Mr. ALLEN. Well, I think, as a compromise step, the addition you make will help out a good deal.

The CHAIRMAN. The Chief of Engineers has a large technical corps, and after elaborate hearings among local interests arrives at a series of conclusions. The Secretary of War seldom passes judgment on them. The query is, What staff has the Secretary of the Treasury, or would the director of the budget have to enable him to pass judgment on that which the Chief of Engineers has concluded?

Mr. ALLEN. Of course, he will have technical questions. The success of the budget office will depend upon the power of analysis and the power of question, and I should think, from what we have read in the past of the attitude of the Chief Engineer, that he would be very grateful to feel that somewhere between him and the public is an officer that is going to ask for weighty reasons.

The CHAIRMAN. I am very much in hope, if we get this bill or something like it in operation, that we are going to be able to create a committee on the joint recoordination of the whole Government. That is the reason I did not attempt anything more in regard to these river and harbor estimates.

Mr. ALLEN. At line 25, on page 6, section 13, and line 1, on page 7, will you not consider including a provision that the budget director or, if you wish, the Secretary of the Treasury, but preferably the budget director, shall give hearings or shall hold conferences with the department heads before his final decision?

The CHAIRMAN. We so intended, of course.

Mr. ALLEN. I think there is nothing here that I see that calls for that.

The CHAIRMAN. You send us an amendment to meet your view.

Mr. ALLEN. I have just come from a State, Senator, where, for instance, I have seen several illustrations like this: The department asked for a power house, appurtenances, and smokestack, and the budget commission, having a certain amount of money in mind, gave him the smokestack. In another case a man asked for a horse and buggy and the budget commission gave him the buggy. Obviously, that is not going to get us anywhere, that sort of thing, and a conference in time would have saved that anachronism.

The CHAIRMAN. Of course, while we have provided for the necessary power of appeal to the President, we hoped very few appeals would be taken to him. That has been our experience in Illinois. The director of finance there is persuaded by the department head, or persuades the department head, or they compose their differences in a conference.

Mr. ALLEN. Under section 14, again, we are surprised and pained even to have the exemption of the two great departments, especially at this time when there will be a desire, and a very natural desire, within the War and Navy Departments to reduce very slowly their war-time rates: and again, if there are tactical reasons for the exemption, so far as actual reductions are concerned, will you not consider

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calling on the budget division for a report, so that it will be required to make an investigation and give to the Congress the results of the investigation? Congress will never have time for that kind of study.

The CHAIRMAN. If the committee shares your view, I shall very gladly join them, but *festina lente* (make haste slowly).

Mr. ALLEN. Under section 15 you provide that access to records may be had only when the Secretary of the Treasury authorizes. Will you not have all the protection you want there if the director of the budget is given access for himself or anyone whom he authorizes? Just strike out "when duly authorized by the Secretary of the Treasury."

The CHAIRMAN. I think we had better substitute there "upon written request," or something like that.

Mr. ALLEN. Under section 16 we hope you will waive that limitation. The country is ready for an aggressive piece of statesmanship in regard to the District of Columbia. You read in the morning papers to-day a column or so about the schools being overcrowded and 3,000 children being in temporary buildings. There has been a condition here for years that ought not to be allowed, and would not be allowed in any one of 50 of the leading cities of the country.

The CHAIRMAN. Do you propose that Congress shall appropriate more than half?

Mr. ALLEN. I propose that Congress shall get estimates of what the District needs and take steps to see that the locality taxes what ought to be taxed to cover its half. You start with giving a certain amount of money, and there perhaps has been stupidity or ignorance here in the District of Columbia. We might change that and base the estimate upon what the District of Columbia needs, and then provide that the District of Columbia shall do what it ought to do to cover its half.

The CHAIRMAN. I will ask for more light on that subject from the members of the District of Columbia Committee. The tendency has been here, and the House is insisting all the time, that the District shall bear an increasing proportion of the cost of its local government.

Mr. ALLEN. I do not know but that it is well enough to know what the proportion ought to be, but it is quite clear that the children and laboring classes and tenants and others in this city ought not to be paying the penalty for some arbitrary 50–50 plan that is not based on the needs of the community.

In section 17 we would like to see, under the head of a comparative statement, in line 10, a clause providing that the differences shall be shown by themselves. I have seen the working papers of several of the conferences in the Senate and House and have found that this country's statesmen are spending about half of their time subtracting the details from the entire total to see what the difference is.

The CHAIRMAN. Prepare an amendment to cover that.

Mr. ALLEN. I will. It will not mean but just a phrase. So far as this bill is concerned, those are the only questions we wish to raise.

In regard to the House bill, the main question has to do with the permament tenure of the controller general, as I wrote you.

The CHAIRMAN. Now, Mr. Allen, it is the disposition, I think, of the members of this committee to consider that whole question of audit and accounting and the future of the efficiency bureau as a

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problem apart. The more we have looked into it the vaster it is; and while I hope the committee will undertake to write a bill covering that ground, I think it is the disposition of the committee to let that wait until we finish this bill covering the preparation of estimates and the budget report. However, if you care to send us a memorandum upon the two bills, we will be very glad to have it. Congressman Fitzgerald and Gov. Lowden have both undertaken to supplement their testimony by memoranda of that character.

Mr. ALLEN. In case it comes to conference, we will assume that possibly there might be some compromise between the two Houses, and at that juncture we should be glad to have a few points on record as to the audit. We are very glad to have the question raised in the big way that you are raising it. I think the time has come for the country to proceed.

May I venture one suggestion based upon a more recent study of the conditions in the Ohio State government? We are urging there a more definite charging of the auditor with operation audits. Of course, the efficiency bureau has been making those with inadequate financial support for some time, but we would like to see in the law a distinct provision for operation results of procedure, as well as of audit finance. I am sure you have had that in mind as well as this larger service of the audit department.

(Whereupon the committee adjourned to meet at 10 o'clock a. m. on Monday, January 12, 1920.)

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NATIONAL BUDGET.

MONDAY, JANUARY 12, 1920.

UNITED STATES SENATE,
COMMITTEE ON A NATIONAL BUDGET,
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to adjournment, Senator Medill McCormick presiding.

Present: Senators McCormick (chairman), Smoot, King, Jones, Simmons, and Edge.

The CHAIRMAN. Gentlemen, there are so many committees meeting and Senators have so many engagements that I will call the committee together without waiting for the other Senators, and I will ask the stenographer to make a record of those present as they come in. Without more delay, I will ask President Butler, who has come here to testify, if he will take a seat at the table and testify in any order that is agreeable to him.

STATEMENT OF MR. NICHOLAS MURRAY BUTLER, PRESIDENT COLUMBIA UNIVERSITY, NEW YORK, N. Y.

Mr. BUTLER. Well, Senator, with a view to saving the time of this committee, I have prepared a memorandum which, with the committee's permission, I would hand to you, sir, as a statement of my views on the pending questions that have been referred to this committee and the large administrative problem that you have undertaken to study, and beyond that I am quite at the disposal of the committee.

The CHAIRMAN. Are there some phases of it that you would like to discuss now, President Butler?

Mr. BUTLER. Yes; and then I will file, if I may, the statement with the stenographer.

The CHAIRMAN. And if you have extra copies, some of the Senators might like them.

Mr. BUTLER. I have a certain number.

(The statement referred to is here printed in full as follows:)

The argument for a national budget system framed in accordance with the best moderinthe ory and practice is unanswerable. It is generally understood that nothing now stands in the way of the speedy adoption of such a system save a difference of opinion as to how a budget may be best prepared for submission to the Congress. The bill which passed the House of Representatives (H. R. 9783) by a practically unanimous vote provides for the establishment of a bureau of the budget in the office of the President. The measure introduced in the Senate (S. 3476) by Senator McCormick establishes a budget bureau in the Treasury Department. Both bills have been referred to this committee.

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The difference between them is by no means irreconcilible. The real point is to make the President responsible for the budget, and whether his agency in its preparation be a bureau in the Treasury Department or an independent bureau is a matter of subordinate importance. Personally, I prefer a bureau in the Treasury Department.

The budget, however, is not an end in itself, but a means to a further end. That end I conceive to be the establishment of a more complete understanding and cooperation between the executive and the legislative departments of the Government in the formulation of national policy and in the transaction of public business. During the past 100 years we have frequently patched our system of governmental administration to meet emergencies, but we have never reconstructed it to meet our modern needs. If the American Government is to continue to deserve and to enjoy the confidence and respect of the people it must show itself able to function without undue delay and to satisfy the people's just aspirations by responding quickly to their genuine and clearly expressed needs. To accomplish this, governmental administration by business methods is imperative. The same principles which govern the organization and conduct of any great undertaking, whether it be a railroad, a bank, a great retail store, or a university, apply to the conduct of the people's business through government.

The first essential is that the important work of each year be regarded as a unit and be presented to the Congress and the people in and through a carefully classified budget. The President should present his plans and recommendations to the Congress as a unit, and the Congress should debate and pass upon them as part of a single well thought-out plan. The chief political event of each year should be the presentation and adoption of the annual budget. Upon this the interest of the people and of the press, as well as of the Congress, should and might be concentrated. In current discussions of this subject most emphasis is laid upon the Government expenditures, their classification, and control, but, of course, these make up but one-half of a budget. The other half consists of the Government's income, which raises in most acute and concrete form of questions of taxation and of the public debt. The President should be required by law to take the responsibility for recommending to the Congress just how the income of the next fiscal year is to be raised, just how the expenditures of that year are to be made, and what provision is to be made for the estimated deficiency in income, if any. There has been some argument of the point that the preparation of the budget should be a matter apart from politics. This could never happen in a democratic form of government. A budget is nothing but politics; it is all politics. It is, indeed, the issues of the last-preceding campaign reduced to practice. If the people desire to establish a certain system of taxation, and so vote, the next budget will reflect that decision. If they deliberately choose a policy requiring certain large expenditures, the next budget should reflect that fact. The budget would very quickly come to be looked upon by the people as the method in and through which they could get their wishes carried out and hold responsible for any failure to carry them out either the President or the Congress, or both, as the case might be.

Legislation for an adequate budget system will, I think, contain three distinct sets of provisions—first, those relating to the preparation and submission of the budget itself; second, those requiring the presence of the heads of executive departments on the floor of Congress at stated times to answer questions and give explanations relative to budget items falling within the scope of their several departments; and third, provision for an independent audit of all Government expenditures, not only as to the correctness of their form but as to their propriety, by a public auditor directly responsible to the legislative department of the Government.

In my judgment, these three steps would establish the proper relation between the executive and the legislature. The legislature would be the responsible critic of the executive and would express its criticism through its control of the purse strings and of the methods of raising revenue. It would not deal with the executive departments at haphazard, on hearsay, or on the basis of newspaper paragraphs, but at first hand and face to face. Finally, it would have its own independent audit.

Let me say a few words in regard to each of these three points:

First, as to the preparation and submission of the budget. The responsibility of this should be directly fixed upon the President. To establish a new and separate bureau is, in my judgment, simply to multiply wheels in an

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already over-elaborate machine. My preference is to have all bureaus and activities not directly concerned with finance that may now be in the Treasury Department transferred to other executive departments. The Treasury Department should then be confined to the collection of the revenue, to its activities in connection with banking and currency, and to the preparation of the annual budget. Its own organization should, of course, always be subject to reexamination and criticism, and it should be the President's agency in the collection and preparation of material for each year's budget estimates.

Care should be taken, I think, not to confine within too narrow limits of time the work of budget preparation. Rightly conceived, this will be an enormous task and a continuous one. In practice it will doubtless be found necessary to prepare very early in any given fiscal year the budget estimates for the next succeeding year. Each executive department and each separate administrative agency, whether bureau or commission, should designate from its staff a budget officer who should, so to speak, be the liaison officer between that department or bureau or commission and the Budget Bureau of the Treasury Department. This provision is contained in Senator McCormick's bill, section 4.

I do not think any estimates whatever should be excluded from the budget, either those for the War and Navy Departments, for public buildings and grounds, for the Library of Congress, for the Supreme Court, or for the legislative branch of the Government. It is doubtless true that in practice some, at least, of these estimates will not be treated in just the same way as those for other purposes, but it certainly will be a grave error to seem to divide the activities of the Government, so far as the budget is concerned, into two separate groups. Moreover, it may well be that at some given time the policy of a President or that of the party to which he belongs will largely turn upon questions of appropriations for the Military and Naval Establishments. I should omit nothing from the scope of the budget. Hold the President responsible, not for part of the administration of the Government, but for all of it.

Second. The Cabinet officers and the Congress: When the budget has been submitted to the Congress, I hope very much that the Senate and the House will both provide for its detailed consideration and examination by a single budget committee large enough to be representative of the whole House and of the whole Senate without being so large as to become a town meeting. When the budget has been reported to the House or to the Senate, I would then require the attendance of the heads of the several executive departments at stated times, with the right to participate in debate on matters relating to the business of their departments under such rules as the Senate and House, respectively, may prescribe. I regard this as one of the most important steps to be taken in order to make budget legislation really effective and to bring the appropriations still more completely within the knowledge and under the control of the Congress. As Senators know, this is an old proposal. The classic document on the subject is Report No. 837, submitted to the Forty-sixth Congress, third session, on February 4, 1881, by Senator Pendleton, of Ohio, chairman of a select committee appointed to consider a bill (S. 227) to provide that the principal officer of each executive department may occupy a seat on the floor of the Senate and House of Representatives. This report, a most able and convincing document, was signed by Senators Pendleton, of Ohio; Allison, of Iowa; Voorhees, of Indiana; Blaine, of Maine; Butler, of South Carolina; Ingalls, of Kansas; Platt, of Connecticut; and Farley, of California. There is about it no shadow of partisanship. It simply expresses a strong desire to improve the practical working of our Government in the way suggested. This report deals exhaustively with the constitutional, theoretical, and practical objections that might be made to this departure. I can not do better than to ask Senators to study that report. It is doubtful whether anyone could add to the force of its arguments. Coming at the close of a legislative session, it was never acted upon. This same proposal, when brought forward by Mr. Pendleton, of Ohio, in 1864, at which time he was a Member of Congress, was vigorously supported then by Mr. Garfield and by Mr. Blaine. It was renewed by the late John D. Long, of Massachusetts, when he was a Member of the House of Representatives in 1886. It has several times been publicly supported by President Taft.

That this action would, if taken, greatly increase the efficiency of our Government and bring the executive and the legislative branches into closer understanding of each other's methods and purposes without in the least trenching upon the independence and authority of either, seems to me quite certain. One of the most valuable features in the business of the House of Commons, and

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one that most attracts the attention of the English people, is the asking by members of the house of specific questions on matters concerning which the public desires information or about which some criticism or discussion has arisen. Many a long and impassioned speech that now extends over pages of the Congressional Record would be saved if a responsible Cabinet officer were at hand to give immediate answer to a definite question or to offer a statement of fact relative to some matter of public business. It seems plain that under such a system only those men could maintain themselves as Cabinet officers who had administrative ability and knowledge of their departmental business with which to maintain their positions before either House of Congress. Sometimes Cabinet officers have stated that they are so hedged about with legal restrictions that they can not effectively improve the administration of their departments. If this be true, the facts would speedily be revealed to the Congress and steps could be taken to give Cabinet officers the necessary freedom with which to bear their just official responsibility.

Third, an independent audit under control of the Congress. Provision for an independent audit complete the scheme of budget legislation which commends itself to my judgment. I would rewrite the provisions of the House bill (H. R. 9783) by providing for a public auditor instead of a comptroller general, to be the head of an accounting department to report to the Congress and to be under the authority of the Congress. I suggest the establishment in both Senate and House of a committee on public audit, and believe it would be advantageous if the custom were instituted of having a member of the legislative minority designated to act as chairman of this committee. Care must be taken not to let the public audit develop into a source of purely political criticism and attack. It should be strictly a business office to inform the Congress as to whether the moneys that had been appropriated had been expended not only in accordance with law, but wisely and well. Waste and extravagance which might escape detection at the time when appropriations are made would almost certainly be detected in the public audit.

There is one more point to be borne in mind abount a budget system. It is almost universally referred to as a means of saving money; but even if under a budget system not a single dollar was saved, there would be every possible assurance that every dollar was wisely expended. The people are constantly demanding new forms and kinds of public expenditure, and if these are to be undertaken without making taxation so severe as to burden industry and crush out enterprise, the necessary moneys must be found by savings where there is now waste, overlapping, and duplication of effort.

It would be a great step forward if in connection with the establishment of the budget system the Congress were to continue the provisions of the Overman Act approved May 20, 1918, "authorizing the President to coordinate or consolidate the executive bureaus, agencies, and offices, and for other purposes, in the interest of economy and the more efficient concentration of the Government," and would strike out the two limitations now contained in the act, so that the President would be free to propose in his budget a complete, an effective, and a modern reorganization of the machinery for conducting the Government's business. With the two restrictions removed from the Overman Act, no further legislation would be needed to open the way to the greatest administrative reform in the history of our Government.

Bad administration or lax administration is responsible for most of our public mistakes and for much of our public dissatisfaction. Good administration is far more necessary than more legislation. A national budget system with a provision for requiring the Cabinet officers to come face to face with both Houses of Congress would put the Congress where it should be, in control of the financial situation, and would enable both the Congress and the country to fix upon the President complete responsibility for any error or delinquency in administration.

Mr. BUTLER. My point of view, Senator, is that the introduction of a properly formulated national budget is not an end in itself, but a means, and a very important means, to improving the whole administrative organization of the National Government. As I read our political and governmental history, we have patched and amended our administrative machinery to meet emergencies and conditions for about 125 years, but we have never really taken up the question of its reorganization from the standpoint of the governmental needs

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and business methods of to-day, when our Federal Government has become, of course, the largest business undertaking in the world, and my fundamental proposition is that all over the world we are faced by the question of the breakdown of governments as efficient agents, their breakdown, I mean, before public opinion.

You see that, of course, in the European countries, and you hear it complained of by certain elements of our own population. It seems to be vitally important that we should construct an administrative machinery that will function quickly and responsively so that the people may continue to give confidence and respect to the Government, because it responds quickly to their needs and aspirations when they are clearly expressed.

It is my thought that the President, as the head of the Executive Department of the Government, should be made responsible for the preparation and report to Congress each year of a plan of governmental administration and activity for the ensuing year, and that the report should be in the form of a classified budget. You have before you two schemes. I very strongly prefer the scheme for making the Treasury Department the agency and representative of the administration in the preparation of the budget, and I also believe and hope that the provision which transfers nonfinancial bureaus from the Treasury Department to other executive departments will commend itself to the Senate.

I should myself not omit anything from the scope of the budget. I should hold the President and his administration responsible for the entire plan of governmental operations, and put Congress in what I believe to be its proper and legitimate attitude, as the holder of the purse strings and the legislative critic of these proposals which are brought forward from the standpoint of the administration of the Government.

We generally speak, and in the newspaper discussions we generally hear, of the expenditure side of the budget only. Of course, that is only half of it. A balanced budget must contain detailed estimates of the revenues with which these expenditures are to be met, and it ought to contain, in my judgment, recommendations as to how those revenues should be raised. I should think the President ought to be required by law to take the responsibility for recommending to the Congress how the income of the year is to be raised, how it is to be spent, and what provision is to be made for administrative efficiency, if any.

Senator SMOOT. Doctor, is it your idea that when he makes those recommendations, Congress is to follow them?

Mr. BUTLER. Not necessarily. Then Congress is its own free agent.

Senator SMOOT. Past history has demonstrated that whatever recommendations are made by estimates in the departments are made at a time when Congress itself can give very little attention to the examination of the details required. In other words, the appropriations committees of the two Houses call upon the officials of the departments already making the estimates for the testimony to support the appropriations asked for. Of course, it is not simply the Treasurer that does the detail work. He knows nothing about it. The heads of the bureaus make their estimates to the heads of the departments , and the heads of the departments tell the Secre-

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tary of the Treasury what they want. He never goes into an investigation of it at all. In fact, there is no investigation made with the exception of the little investigation that is made by the Committees on Appropriations, and that is so incomplete that it amounts to nothing at all.

My idea of a budget system would be to make Congress responsible for the appropriations, and let Congress create some agency to go into a detailed study of every requirement of the Government and report its results to the Appropriations Committees, or to the budet committee, as the case may be, and let them make the appropriations to carry out whatever those investigations develop is absolutely necessary.

Now, if the Appropriations Committees of the House and Senate had made all of the appropriations asked for by the administration, we would not have had any Government now.

Mr. BUTLER. Absolutely.

Senator SMOOT. If we leave it in the hands of the President, or in the hands of the Secretary of the Treasury, or the administration in power, to make estimates as to what the expenses of the Government shall be for any year, I am afraid that we will bust the Government.

Mr. BUTLER. That is an alternative plan.

The CHAIRMAN. May I ask you a question bearing on Senator Smoot's remarks? Do you propose, President Butler, that there shall be vested in the Treasury the power to assemble, revise, and reduce the executive estimates, and then to submit them for review by Congress?

Mr. BUTLER. Yes.

The CHAIRMAN. For further amendment and revision?

Mr. BUTLER. On behalf of the President, but if I may reply to Senator Smoot, I think the plan he outlines is, of course, a possible plan, and it is an alternative plan to the plan for executive responsibility. I think the difficulty now, Senator, is that we have never fixed a responsibility before the public upon the executive, and he has regarded himself—I do not mean any particular executive, but the executive department of the Government has regarded itself as a spending department for all it could get, and the Congress has been put in the position of having either to provide the money or to be the economizing or saving department.

I would like to see a due amount of responsibility put upon the Executive that would make him and his associates feel the necessity for presenting to the country a business-like proposition for conducting the affairs with which it is concerned.

Senator EDGE. I entirely agree with Dr. Butler. The result of that would be, Senator Smoot, that Congress would be the agency you would have to watch and keep the Executive from raising the estimates, but the Executive recommendations, where he is made responsible, would usually pare the estimates down, and then the question comes whether Congress will increase them or not.

Senator SMOOT. The experience of the Appropriations Committees does not bear that out, because, even with the loose system we have we find that if it were not for Congress the appropriations would be at least one-third more than they are.

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Mr. BUTLER. There is no question about that, Mr. Chairman. I think we must all admit that the burden of making a budget has practically fallen on the active members of the two Committees on Appropriations for two generations. My belief is that the Government would function more effectively of those committees were in the position of critics of proposals that were put forward on the responsibility of the Executive, and on which he must stand or fall before the people.

Senator SMOOT. The difficulty is that the members of the Appropriations Committees have not the time to go into the details of all these estimates, but if Congress had an agency to-day, with power to go into the departments of the Government and make these investigations and report to Congress what they find, there would be a different result entirely from what we have had in the past, but the only agency that we have now is the Efficiency Bureau to-day——

Senator KING. Which is impotent for lack of power.

Senator SMOOT. The head of that bureau is appointed by the President, and would no more dare to make a report adverse to what the administration wants, if he desires to keep his position, than if he were a total nonenity.

Mr. BUTLER. I have that point in mind, Senator, and I should propose to cover that by my suggestion of a public auditor under the control of Congress and reporting to the Congress.

In the bill which is pending here, the House bill, that general scheme is outlined, and that officer is described as the comptroller general. I should prefer to have that officer called the public auditor, because my conception of a comptroller is an officer who goes over payments before they are made, as to their legality. I should prefer to have that in the form of a public audit, going over the payments after they have been paid, not only as to their legality, but as to their wisdom, and reporting to the Congress, under the control of Congress. I believe that is where Congress will get its check.

Senator SMOOT. I want an investigation made before the appropriation is made.

Mr. BUTLER. It would be, except in the case of the very first appropriation. This system, if you adopt it, will be a continuing system. The very first set of budget estimates would not have the advantage of the previous study by the public auditor. Every one after that would.

The CHAIRMAN. Will you continue?

Mr. BUTLER. I believe myself that legislation for an adequate budget system schould contain three distinct sets of provisions: First, those relating to the preparation and submission of the budget itself; second, which is one upon which I personally lay very great stress as an almost absolute essential for the success of what I consider a proper budget system, namely, requiring the presence of the heads of executive departments on the floor of Congress at stated times to answer questions and give explanations relative to budget items falling within the scope of their several departments; and, third, provision for an independent audit of all Government expenditures, not only as to the correctness of their form, but as to their propriety, by a public audit directly responsible to the legislative department of the Government.

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My preference for the Treasury Department, reconstructed as has been suggested, is that it avoids creating another wheel in an already over-wheeled coach. As we all know, every new bureau, every new board, every new commission, of necessity becomes a new spending center, and I think it is sound administrative policy that the fewer spending centers you institute the easier will be your control over the amount of your expenditures.

The criticism has been made to me by men of authority and experience that this would put the Secretary of the Treasury in a somewhat difficult position toward his colleagues. I think the answer to that is that it is a natural position, that it belongs to the Treasurer, and that really he is the representative of the President, just as they, in making the estimates for the carrying on of the administrative work of their several departments are the President's advisors and representatives.

The CHAIRMAN. Dr. Butler, is not that the position which the Secretary of the Treasury occupied in the time of Hamilton, Gallatin, and Crawford, in being required to appear on the floor of the House before the Committee of the Whole House?

Mr. BUTLER. Yes; and that was only departed from when the Government began to grow so complex, and it has never been revived since. From the ground up, this is one point I have had in mind. I refer back to Senator Smoot's question again. I should regard the making and consideration of the budget as a practically continuing all-the-year-around process. The Treasury Department, in its study and preparation, the Committees on Appropriations in their scrutiny to arrive at conclusions, and the public auditor, in his examination and report, would be practically at work upon the budget for the entire 12 months after the system was started.

Senator SMOOT. I think we ought to be, in case the whole plan is in the hands of Congress. I think that that agency that Congress should create, which will be responsible to Congress, and not to any appointive power of any administration should work from one end of the year to the other, and not only that, but the Appropriations Committees of the two Houses would know just exactly what they were doing, and we would get the reasons, as obtained from this agency, and then the members of the two Appropriations Committees, if they desired to make a personal investigation, would know just where to go and just where to put their fingers upon it, and the whole question then could be decided by the two powers that control the purse strings of the Government.

The CHAIRMAN. May I ask you both a question upon that point? Assuming that we create an office of comptroller general, or whatever he may be, to carry out the functions which Senator Smoot and Dr. Butler have in mind, how are we going, under the constitution, to deprive the President of the appointing power? Are we going to appoint him by joint resolution after the election of each successive Congress?

Senator SMOOT. Give the power of appointing this agency to Congress.

The CHAIRMAN. Can you, under the Constitution, confer that power upon Congress?

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Senator SMOOT. Surely, Congress has a perfect right to appoint any agency for any investigation in any department of the Government, even the Executive.

Senator KING. We have committees now for making investigations of expenditures in the various departments.

The CHAIRMAN. But those are Members of Congress. I am wondering how, under the Constitution, you are going to appoint a permanent agent of Congress.

Senator EDGE. Just as you appoint clerks in your office now.

The CHAIRMAN. They are appointed for one session.

Senator EDGE. Why not go on appointing them?

Senator KING. If we appoint them as an act of law, if succeeding Congresses do not repeal it, it would be a continuing statute.

Mr. BUTLER. I have suggested here a committee on public audit in each House of Congress.

The CHAIRMAN. A joint committee?

Mr. BUTLER. A joint committee on public audit, and if the point which the chairman raises is found to raise constitutional difficulty, surely that joint committee could have as its select officials such public auditor and staff of auditors as it might determine. As Senator King says, you now have your separate committees on expenditures in the several departments. That would be practically combining them in one and giving them an executive staff.

Senator SMOOT. Nobody ever questioned the power of a committee of Congress or agency of Congress to go into an executive department of the Government and require any information that is contained in the records of that department.

Mr. BUTLER. Exactly.

Senator EDGE. Through the employees that they may select?

Senator SMOOT. Yes.

Senator KING. I was about to suggest that we might be anticipating many of the points which Dr. Butler may cover, and, while I do not wish to interfere with the desires of any Senator, it seems to me that we might make headway if we let Dr. Butler conclude before propounding such questions as we desire.

Mr. BUTLER. I have laid this memorandum before you, and I have no desire to take any more time of the committee whatsoever.

My second point on which, as I said, I lay very great stress, is that the Cabinet officers should be required to appear and answer questions and give information to either house or both houses of Congress in regard to matters affecting appropriations for their departments. I hope that the Senators who may not be familiar with it will read a classic document on that subject——

Senator SMOOT. Let me call your attention again there, Dr. Butler, to some of the experiences that I have had as a member of the Appropriations Committee for many years. The members of the Appropriations Committee in the hearings upon any appropriation get very little information from the Cabinet officer. They know nothing about the details of it. We get the information from some employee in those Government departments and they know the details of it, and they are compelled to come before the committee by the head of the department and give the reasons for the request for the appropriation.

Mr. BUTLER. I know that, Senator.

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Senator SMOOT. Therefore, it seems to me it would be perfectly useless to have a Cabinet officer come before Congress to be questioned upon things that more than likely he has given no attention or study to at all. One effect may come from it, that perhaps the heads of the departments would study the estimates a little more than they have in the past; and I will tell you that if they do not know any more about the estimates in the future than they have in the past they would not be of any assistance to us.

Mr. BUTLER. The chief object of this suggestion, Senator, is to remedy precisely that condition. Of course, you would not expect the head of a complex department like, let us say, the Interior Department or War Department to be able to answer without notice any question, but if he is a competent administrator and fit for his position he certainly ought to be able to inform himself by conferences with his own immediate subordinates and gain the information that would enable him to come and answer questions, just as you, even now, summon him on important matters before the Committee on Foreign Relations or the Committee on Military Affairs. I personally believe that nothing would do more to increase the efficiency of the various executive departments represented in the Cabinet than to take a step that would force this responsibility upon them, and bring them not only in contact with the Congress but before the public in exposition and defense of administrative acts.

I quite agree that under some conditions that have prevailed in past years the mere passage of statutes such as I am seeking would have very little benefit, but my belief is that it would remedy those conditions very speedily and that a different type of attention would be given to the routine of administration.

I did not go into this matter because I simply refer you to that classic document. I have never seen a more convincing report, I have never known a more convincing or interesting report, than was presented to the Senate by Senator Pendleton of Ohio in the Forty-sixth Congress, third session, on February 4, 1881, on a bill (S. 227) to provide that the principal officer of each executive department may occupy a seat on the floor of the Senate and House of Representatives.

This report, if you may recall, contained the signatures of Senators Pendleton of Ohio, Allison of Iowa, Voorhees of Indiana, Blaine of Maine, Butler of South Carolina, Ingalls of Kansas, Platt of Connecticut, and Farley of California. It is a very remarkable document, and the Senate had it reprinted in 1913. I have the original of it here, but the Senate had it reprinted in 1913 in another form so that it is accessible and, in my judgment, it is a most important document.

My third point is that of an independent audit under the control of Congress. This refers to the study of the expenditures of which Senator Smoot has been speaking and which is of vital importance. I would have, as I say, a joint committee on public audit and have that bureau responsible to Congress, so that Congress could at any moment inform itself independently either as to the extent or significance or as to the value of its appropriations.

I have only one more thing to say, or two more things, perhaps, to say. The first is that the budget system is frequently sustained and defended as a mode of saving money. A budget system might

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save money and probably should, but whether it saved money or not it would have the very great advantage of enabling the Congress and the people to see at one general glance where the public moneys were going, for what general purposes, for which they must now depend on the statements that are made at the close of a session of Congress by the chairmen and the senior minority members of the Committees on Appropriations, setting out the estimates which are prepared, and defending or criticizing them, as the case may be.

In the next place, when the Congress passed the Overman Act two years ago, on May 20, 1918, it opened the way for the act to be kept on the statute books with the two limitations removed. It opened the way under our system to bring about a complete administrative reorganiaziton of the Government's business in connection with modern experience. I have never seen a report as to what action has been taken under the authority of that act by the Executive; but, of course, the act itself expired six months after the termination of war and is also limited in its scope and functions to activities having to do with the conduct of the war; and that act, which in principle, I think, commended itself to Congress so largely—there was not a very large vote against it in either House, if my recollection is correct—if that act stood upon the statute books with those two limitations removed, if you had a budget system, Congress could hold the Executive responsible for any matter which was open to public criticism on the ground of duplication of effort or extravagance or multiplication of agencies.

One of my fundamental propositions, Mr. Chairman, is that in our modern governmental systems there is much less need for new legislation than there is for better administration, and that the same grasp of administrative details which is required to make a commercial or financial project successful ought to be applied to the conduct of the people's business, and that better administration would solve a very large number of our problems, without the constant multiplication of statutes of greater or lesser importance, and I believe that the way in which Congress can practically compel better administration is to require the submission to it year by year from the Executive of a carefully considered and systematic plan for the business of the year, the expenditure of the public moneys and the raising of the revenues.

I have seen some argument in the press and elsewhere that the preparation of a budget should be apart from politics. I hold the contrary view. I regard the budget as pure politics and nothing but politics, in that it is the political record of the effect of the people's judgment. They vote for some particular policy which requires the expenditure of money and the raising of taxes in some new way. The budget will immediately reflect that. It would be a way by which the people year after year would observe the extent to which those policies and acts which they voted to support and approved were being carried into public effect by the Executive and by the Congress, and instead of leaving the Executive in the position of critic of Congress, it would put Congress where I think it belongs, in its proper position of critic, constructive critic, not fault-findng critic, of the Executive, and with those three suggestions I will just leave this memorandum with you, as I think it covers all I have to say.

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Senator JONES. Is there not a fundamental difference between the suggestions which you make to the committee and the position which Senator Smoot has outlined?

Mr. BUTLER. There is in this respect, that if I understand Senator Smoot correctly, he would be satisfied with having the estimates simply collated and sent in as they are now, in the big book of estimates, and the President make his general recommendations in his message or special message as to what legislation should be enacted, and then have Congress, with the aid of this bureau of public audit, of whatever you call it, study the needs of the Government from its point of view, and appropriate accordingly.

Senator SMOOT. And report to Congress, and Congress make appropriations accordingly.

Mr. BUTLER. I understand. Personally, I prefer, and believe it would result in better administration, that the Executive be required to prepare and submit a detailed, studied plan, which Congress could then deal with as it saw fit.

Senator JONES. Do you think it would present an opportunity for a committee of Congress, through any machinery which it might establish, to study the various activities of the different branches of our Government and keep before it a definite, comprehensive plan for all the activities of the Government?

Mr. BUTLER. I should doubt it very much, but I think, furthermore, Senator, it really tends to confusion like making that an administrative function. I think one difficulty about our situation which has given rise to some criticism is the intermingling of the legslative and administrative functions at so many points. I have heard Cabinet officers in the past complain that they were held responsible before the public for the administration of their departments, and there was this provision, that provision, or the other provision of statute which prevented their carrying out what they believed to be desirable reforms.

If that is the fact, that would easily come up. In the preparation and defense of a budget the Cabinet officer would state that and have to prove it to the Congress or to the committee of Congress, the Senate or its committee, and the House or its committee, and what they appropriated would reflect that fact. I think it is important that the Executive or administrative and legislative functions should not be intermingled, but the legislative should have the purse strings and be a constructive critic, and administration should be left free to attend to its functions and not take hold of the detailed administration of the Government at its initiation.

Senator JONES. It strikes me Senator Smoot has put his finger on the very thing which is objected to by all of us, and that is at the present time there seems to be no agency whose business it is to study the various activities of the Government and determine whether those activities should continue, or the extent to which they should be expanded or limited, and there is no agency which assembles any comprehensive scheme at all, but he proposes that a committee of Congress shall undertake the work of inquiring into the various activities of the Government and determining whether they ought to be carried on or not, the extent to which they should be carried on, and the machinery for carrying them on, whereas the plan which you propose, and I think it is in harmony with the

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general views of those who advocate a budget system at all, is that one branch of the Government shall make it its business to go into all these various activities and determine upon the policy involved, as well as the procedure for carrying it into effect, and with all deference to the Senator from Utah, it strikes me that an appropriations committee of Congress can not do that thing, and that we must have some branch of the Government whose business it is to keep at that job all the year around, and assemble all the information as to the various activities of the Government, and it strikes me that the position which he takes and the position which you take are decidedly fundamental. There is no reconciling the two ideas.

Mr. BUTLER. I think that states the fact, except so far as the public audit is concerned, and my conception of a public audit would put the Senate and the House in possession of the facts which the Senator from Utah wishes them to have. No one understands better than I do, Mr. Chairman, the immense, almost unexampled knowledge which the Senator from Utah has of the organization of the business of our Government, and no one would defer more than I would, apart from our old friendship, to his knowledge or views, but I really think on this point he has attached too much importance to conditions which have vexed him in his experience, and which are undoubtedly true, but which I believe would be removed, I hope within his experience, by the adoption of another system. I took this proposition to President McKinley after he took office in 1897, and he listened to me very patiently and said, "You are the only friend belonging to my party who has come to the White House with any proposition to save the Government money. Everybody else who has come here wants to spend money, and I do not think you will make much headway." And I did not.

I have seen this happen under more than one administration. An energetic, ambitious bureau chief sees a plan which will increase the importance and magnify the scope of activity of his bureau, probably a useful thing in the abstract and apart from its relation to other things and its expense, and I have seen him go to the President and have heard the President say to him, "Well, I do not know anything about it. See whether Congress will give it to you." I should like to have the President made responsible for every such request, at least nominally, so that the bureau chief, instead of coming to Congress with his special knowledge and his power of advocacy, would have to have his proposals reduced to the terms of a consistent scheme.

Senator EDGE. As I understand you, you are not in any way criticising the general suggestion of Senator Smoot, as the result of his greater experience, but you are, without interfering with that, providing a way so that the Executive will be held responsible and will assume his responsibility, and let Congress have what I think it desires to have, the last say?

Mr. BUTLER. Absolutely.

Senator EDGE. And you also are prepared to provide for responsibility and initiative on the part of the executive elected to carry out his policy?

Mr. BUTLER. Exactly.

Senator SMOOT. I doubt very much whether we shall ever have a President of the United States, with all the duties devolving upon

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him, that can give any attention whatever to the details of the bureaus or divisions or the departments of the Government.

SENATOR EDGE. But he can give attention to the general policy.

Senator SMOOT. He makes the appointment of the heads of these departments, and these heads of the departments make the appointments of the division heads and the bureau heads, and whatever they finally decide will be sent direct to the President as the recommendation of those appointees, and the President has not the physical ability, nor is it possible for him to make an investigation.

With all due respect to Senator Jones from New Mexico, I want to say now that a member of the Appropriations Committee ought to know, whenever they make an appropriation of any amount whatever, where that money is to go, and I say this, that if they do not do it, they are not doing their full duty. I want to say to the Senator that I do not believe there is a member of the Appropriations Committee that knows the duplication of work that is going on in the Government to-day. I am making as good an investigation as I can, and it will not be complete by any manner of means, but I can mention the engineer organizations in our Government. I do not believe any Senator understands that we have 37 engineer organizations in the Government to-day, where there should be only one.

Mr. BUTLER. Absolutely.

Senator SMOOT. I do not believe that many of the Senators know that in the Public Health Service there are 46 agencies doing exactly the same work.

Mr. BUTLER. Senator, suppose you had it in your power, under the rules of the Senate, to bring the Secretary of the Treasury, as the budget recommending officer, on the floor of the Senate, and say what you have just been saying, and ask, "What do you propose to do in your next budget to remedy this defect?" Would that not be a most practical way to handle it?

Senator SMOOT. I think the most practical way, Doctor, would be to have the agency that I have spoken of, created by Congress, responsible to Congress, with power granted to them to make these investigations and bring their report in detail to Congress.

I have not near the details that I ought to have. I will admit that. I can not get them. In fact, I have not the time; with all my other duties, it would be impossible.

Mr. BUTLER. How many engineering organizations did you say there were?

Senator SMOOT. I think there are 37, each receiving an appropriation in one way or another.

Mr. BUTLER. Yet each of them have some friends or some scheme by which they could make a case before a committee of Congress that would confuse you and lead the matter to be overlooked, whereas if you put the responsibility on the executive, who is running the business of the Government, and asked him to stop that, and why he did not stop it, would you not have a case at once?

Senator SMOOT. I think we ought to make the case. We ought to have the courage to say, "We will not make the appropriation." That will stop it mighty quick.

Senator EDGE. Senator Smoot, I would like to get your idea clearly, because we seem to be divided upon a matter of fundamental policy. Granting everything you have said, I agree with you that he could

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not go down to every detail, but what objection could there be for one man at the head of this great big business, as the executive officer over the business, to call and recall the heads of the eight or nine different main departments and discuss various duplications. He has just the same number of hours in the day as the individual member of the Appropriations Committee has, and he can get assembled and brought to him the same information that an individual member of the Appropriations committee can get, and finally work out of that a concrete proposition to recommend to Congress what would be of assistance to Congress and the Appropriations Committee.

Senator SMOOT. If that was all the President had to do.

Senator EDGE. It is not all the individual member of the Appropriations Committee has to do. He has many other responsibilities

Senator SMOOT. It ought to be his main duty.

Senator KING. I do not quite agree with Dr. Butler and those who have been advocating the delegation of the power to look after the budget system to the Executive. I agree more nearly with my colleague. I prepared a bill some time ago. I was reluctant to present it until I had heard all the views of others, because I confess my ignorance of this subject, although I have given a good deal of study to it. My bill provided this, a joint committee of the House and Senate, taking the place of these various committees now that are appointed to examine the expenditures of the departments, whose duty it should be to make a full and complete investigation of the expenditures of the departments, a continuing committee.

Then my bill provides for the creation by general statute of a commission of five, with full power and authority to develop this budget plan, ascertain expenses, and go into the departments and find out the needs and take account of the revenues, and then to cooperate with this joint committee which is to submit its report in the form of a budget, annually or semiannually to Congress.

Senator SMOOT. And be prepared to defend it?

Senator KING. And be prepared to defend it. That is my bill.

The CHAIRMAN. Dr. Butler, do you in this statement speak of the consolidation of the existing appropriations committees?

Mr. BUTLER. I do, sir. Mr. Chairman, I live under a budget system. In my small undertaking we only appropriate $5,000,000 a year instead of $9,000,000,000, but even in that it is impossible for the executive personally to know every detail. But one point which must never be overlooked, in my judgment, is this: The necessity for an appropriation, or for an undertaking, or the arguments for it appear very differently when it is considered by itself, as a single appropriation, and when it is taken with 100 others, and as a part of a plan. You might say to yourselves, "I would be delighted to do this, if this was the only thing the Government was going to do, but the Government has got to do all of these things," and somebody, and that somebody, in my judgment, ought to be a responsible administrator, should advise the Congress and take responsibility for advising the Congress, to do what it believes best as to the order of precedence, or whether the importance of those undertakings is so-and-so, and if B should be postponed until A has been provided. If you throw the matter up with a free-for-all-row, with the sympathies and friendships of Congress, you may get wisdom or unwis-

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dom, but you will lose that balance and that unity and harmony of public policy which I think you will only get by a responsible study of one committee responsible to one head.

Of course, it is true that no President can deal with the details of the Government, but can he not take the estimates, for instance, for the Department of State, when they are brought to him by the Secretary of State, and say, "This is an increase over last year's appropriation, I see, of $800,000 or $8,000,000. What is that for?" "Well, we have put some embassies here and legations there, you know, and other things. We have added these people to the State Department, and we are proposing to build houses for Ambassadors in four or five places." The President will say, "Well, taking all the facts into consideration, those houses will have to wait." He can do that and take the responsibility for that choice. He can do similarly with any bureau or department, without immediate personal knowledge as to the details.

It is largely a matter, in my judgment, of business organization and business training.

Senator SMOOT. Doctor, I have in view the saving of money to the Government. I want to say now that I have never known in my experience here where a President of the United States has written a letter to the Appropriations Committee, either of the House or of the Senate, asking a certain appropriation for a certain specific project, or advocating a certain appropriation of any kind, but what the committee has granted the President's request.

I do not say this with reference to this administration or any administration. I say it because of the fact that if the President of the United States, the head of the administration, the principal spokesman of the party which may be in power, makes a request upon Congress, I doubt very much whether the investigation would be made as carefully as if it were an estimate made through regular channels to-day, and then open to a thorough investigation by an agency of Congress.

Mr. BUTLER. Suppose, Senator, the President were to submit a balanced budget which showed an increase of $500,000,000 in expenditures, and proposed to raise $250,000,000 of that by a scheme of taxation which he outlined, and asked Congress to raise $250,000,000 of it by bonds, would he not put himself at once in a position of responsibility before the country for those recommendations and strengthen the hand of Congress in dealing with them critically, if they were unwise?

Senator SMOOT. No; I think it is charged up now to the administration. The people understand it exactly. The President appoints the members of his official family and the Secretary of the Treasury, and the people understand that that estimate would never be made if the President had any objections to it. You might say that is a negative way of reaching it instead of a positive way, but all the people understand it just the same.

The CHAIRMAN. The Secretary of the Treasury has no power to revise, of course, under the law.

Mr. BUTLER. No; he is just the collecting agent.

Senator KING. Dr. Butler, may I make this observation? I think it has been the experience of Congressmen and Senators, as it has been mine during my seven years in Congress, four years in the

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House and three years in the Senate, that the executive departments are more interested in extending their authority, magnifying their positions, and doing big things and little things than they are in saving money, and that the brakes have been applied by Congress rather than by the executive department.

Mr. BUTLER. I am sure of it.

Senator KING. And it seems to me that unless you have a check upon these executive departments your budget system is going to be an ultimate failure, and yet it is rather incongruous and rather unparalleled that in this country the check on expenditures has always in the past and will always in the future come from the legislative rather than from the executive.

Mr. BUTLER. I think that is true, but I think it is because we have never held the Executive responsible and he has not assumed the responsibility. You have never heard of a billion-dollar President, but we used to hear of a billion-dollar Congress.

Senator EDGE. Senator King, Congress must in the final analysis decide on the appropriations. Why are you taking anything from them, or even unduly influencing them by a complete and concrete scheme presented to them subject to their careful investigation? I think that in that way you would compel the President, simply as a matter of political expediency, if nothing else, to cut down the estimates as far as he can cut them down, in order to be before the people in a favorable light.

Senator SMOOT. The same condition exists to-day, because the administration is charged with the amount of the appropriations, and always will be.

Senator EDGE. They have the say now rather than Congress?

Senator SMOOT. Certainly.

Senator KING. May I make this observation? I am a Democrat. A Democrat is in power, the President, with his four of five Cabinet Officers. I have been to many of the heads of the departments and implored during the past two years, particularly since the war has been over, the utmost economy, and urged the most drastic remedies should be applied to the reduction of our expenditures, and you have seen the estimates that have come from these heads of the departments.

Senator EDGE. Absolutely. I agree with you.

Senator KING. They are perhaps two billions or three billions more than they ought to be, and Congress itself will have to use the scissors and will have to apply the remedy that will bring a reduction in the expenditures of the Government.

Senator EDGE. I am afraid I have been unduly influenced by a very modest personal experience, but exactly what you say is true. In administering the budget in a rather important State for two years the requests from the heads of the various departments always showed increased activities. They came before the budget commission and the governor prepared to argue that they must have all of this additional money, just as you state, but I felt it my duty, and I am sure that every other executive would, to go into the matter very carefully, recognizing the total income of the State as against all these combined appropriations, and I think my original estimates were more than 40 per cent over the budget. I think every other

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executive will be necessarily influenced by the same feeling. That is the reason that a presidential budget has a good deal to commend it.

Senator JONES. To what extent would you permit the Congress to revise the estimates submitted in the budget by the Executive?

Mr. BUTLER. It would be entirely in the control of the Congress.

Senator JONES. That, of course, is in the control of Congress, but would you have no limitation upon them? Would you permit Congress, by a bare majority, or a committee in its report to recommend increases or decreases ad libitum in the budget system?

Mr. BUTLER. I should not know how to handle that unless the House were ready to deal with it by their own rules, because I do not see how we could put any constitutional limitation upon the power of Congress.

Senator JONES. Do you think it would be advisable for Congress, by its rule to provide that no increase in the estimates of the Executive should be made except in a special bill or a separate bill, or something of that kind?

Mr. BUTLER. I have not thought so, unless it developed, as the result of experience under the budget plan, that that is important. My opinion is based chiefly on the ground of expediency. I think you might call for the adoption of executive initiative in our budget legislation, a fear which Senator Smoot has very fully expressed, that in some way it would operate for extravagance, or to limit perhaps the discretion allowed Congress, and I should think the original plan would commend itself more fully. If you find from experience that something of that kind is desirable, it could be added later on, but my impression is that I would not press it as a part of the original scheme. That is my impression.

The CHAIRMAN. Dr. Butler, in Illinois, where we have a budget prepared by the department of finance, there has been established a rivalry of economy.

Mr. BUTLER. I know that; you have done a very fortunate piece of business.

The CHAIRMAN. The legislature shrinks from adding anything to the sum of the estimates of the director of finance.

Senator EDGE. Do they not decrease, rather than increase?

The CHAIRMAN. That is their tendency.

Mr. BUTLER. I think in Maryland it is the same way.

The CHAIRMAN. The original estimates of the bureaus are subject to two reductions. The director of finance first combs out the surplusage, and then the committee on appropriations, and they went so far as to call the governor and the director of finance on the floor of the assembly, in committee of the whole, to defend the estimates, as I believe you have in mind that the Secretary of the Treasury might be called, and as Alexander Hamilton was called on the floor of the House.

Mr. BUTLER. Yes.

Mr. JONES. Mr. Lill, I wish you would state for the record your profession or business at the present time, so that we may have in the record who you are.

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STATEMENT OF MR. THOMAS R. LILL, NEW YORK, N. Y.

Mr. LILL. I am a certified public accountant, in general practice in New York City, a member of the firm of Searl, Nicholson, Oakes & Lill. My budget experience dates back to the Philippine Islands, when I went into the administration under Gov. Taft. I came back to the States in 1909 to get some business experience.

I have handled, I suppose, in five or six different cities throughout the United States a complete reorganization of their budget systems, and in 1917 I went down to Mexico as chief accountant and acting director of President Carranza's financial and administrative reorganization commission, where we made a complete reorganization of the Government at that time, creating three new departments, a purchasing agent for the civil department, a purchasing agent for the military, and a comptroller general similar to what has been proposed here.

Recently my Government work has been confined to acting as consulting accountant for the United States Bureau of Efficiency in a study of the War Department.

I wish to discuss the problem of a national budget as incidental to the general problem of economy and efficiency in the Government service.

Budget reform has received so much publicity lately that an erroneous belief now prevails that a budget will solve all our difficulties and that merely by virtue of having a budget our revenues will increase and our expenditures decrease. The effect of a budget has been very greatly overestimated, since in itself it will do none of these things.

A budget has been variously defined as being an instrument and process of government, an estimate, report, and proposal, or an estimate and appropriation act. Leroy-Beauleieu says that a budget is an act forecasting the receipts and expenses for a terminable period; it is a table for evaluating and comparing income to be realized with the expenditures to be made.

The first three definitions probably are only correct as representing the author's ideas of what a budget should be; the last definition is probably the most correct one. Whatever definition may be given to a budget, it can be nothing else than a forecast, or estimate, showing the revenues and expenditures for the period estimated for—if intelligently prepared, it may also be considered as a program of government.

However the budget is defined, it now occupies the center of the stage as the principal actor in the campaign to obtain economy and efficiency.

The problem of economy and efficiency in the public service is the real issue at the present time, and the budget is only interesting as it may affect this program. We Americans, I think, are now predominately a commercial nation. I believe that we have made the significant change which was so marked in the Roman Empire, from an agricultural country to a commercial one.

It is generally thought by foreigners that American business practice is the model of efficiency and practical management. We have one corporation whose total income was almost as much as that of the United States in 1916; we have thousands and thousands of other

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corporations, to say nothing of parnerships and other forms of business organizations. Strange to say, throughout our industrial fabric, with very few exceptions, a budget is practically unknown in the business world, and if a business man undertook to run his business merely by formulating and setting up a budget from six to nine months before his fiscal year began, he would, if he ignored ordinary business practice, become bankrupt.

How do the thousands of business men in America secure efficiency and economy in running their business? They secure it very largely through accurate up-to-the-minute information regarding the activities of the business, and such information is produced by the accounting department. This being the universal custom of American business life, why not accept the practice as being essential to the conduct of any business enterprise?

It has frequently been claimed, however, that the administration of government is not a business enterprise, or that it is so essentially different from business that the ordinary business methods can not be applied to it.

I think this is wholly erroneous, for government, while it may undertake activities which are seldom found in private business enterprises, is essentially a business enterprise, and the same rules which have been so successful in business may be very largely applied to government.

To be more specific, I wish to emphasize the fact that monthly comparative operating statements for each of the departments of the Government and of the Government as a whole will do much more toward securing economy and efficiency in the Government than any form of budget which may be devised. In fact, I do not hesitate to say that it is the only way in which we will ever secure the desired results.

The point is clearly illustrated by a discussion which I had with a commissioner of finance in a Pennsylvania city. Shortly after preparing the budget for the year he came to me and said that what he needed was a statement every month showing where the money was going to, so that if it was not going right he could stop it. A statement at the end of the year, three or four months after the year had closed, showing him where the money had gone, while instructive, gave him no information whatever upon which he could base executive action.

This gentleman was a very successful business man and had been accustomed to handling large business enterprises. The kind of information that he wanted had already been provided for, and when the new system began operation it gave him just what he wanted.

This is precisely what I mean by monthly comparative operating statements. To produce this kind of information a new organization must be provided for, which is included in your bill—that of a comptroller general—and in my opinion this is the logical first step to take toward efficiency and economy.

Before prescribing the remedy it may be well to diagnose the trouble.

The budget for the fiscal year ending June 30, 1921, as submitted to Congress by the Secretary of the Treasury on December 2, amounts to $4,865,410,031. The total appropriations for the fiscal year ended

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June 30, 1916, amounted to $1,102,210,707. The estimated expenditures for the next fiscal year are therefore $3,763,199,324 in excess of the total requirements of 1916, or a little more than 341 per cent increase. Of this increase, $994,000,000 is due to the increased amounts necessary to pay interest on a public debt and $226,000,000 due to increased requirements for sinking-fund purposes. Deducting these amounts from the total increase heretofore referred to leaves a remainder of $2,541,892,000, which with minor exceptions represents the increase in the current operating expenses of the Government as compared with 1916. This amount represents an increase of 236 per cent.

From my observation of the Government during three months of study here in Washington, I should say that from $0.30 to $0.40 out of every $1 paid by the taxpayers is wasted. Although we are contributing, through taxation, more money to run the Government than ever before in our history, this fact in itself would not cause dissatisfaction if the funds demanded and received from the people were wisely spent and if the benefits derived were commensurate with the increased outlay.

Economy and efficiency are not the proper terms to use in the present condition of the public finances. Economy does not necessarily mean a reduction of expenditures, it means the practical and efficient management of affairs. Efficiency, likewise, does not necessarily mean a reduction of expenditures, it means acting effectually or being competent.

What is demanded by the people of the United States to-day is, first, a reduction in expenditures, and, secondly, that the remainder shall be spent economically, and that the Government shall be administered efficiently.

The causes for this tremendous increase in operating expenses are not hard to find. The primary cause, of course, is the expansion of all governmental activities due to the World War; another cause is due to the fact that Congress by its failure to act intelligently regarding governmental activities and expenditures has ceased to become effective. To put the matter another way, the tail is now wagging the dog.

How to secure a reduction in expenditures and efficiency and economy in the Government service is our present problem. Having dealt with a somewhat similar situation recently in the Republic of Mexico, I wish to state the various steps which in my opinion should now be taken.

First. The committees of both Houses of Congress should be reorganized so as to provide a joint committee of from 3 to 15, or possibly more members, for each of the independent bureaus or departments of the Government.

It is my idea here that as far as possible we should organize the Government along the lines of a holding company with a number of subsidiary companies, the subsidiaries being represented by the departments and bureaus of the Government. The committees would operate as the boards of directors of the governmental units.

Second. For the year 1921, at least, the appropriations for the Government should be in a lump sum for each of the departments and independent bureaus of the Government, with a segregation under three heads as follows:

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(a) Salaries and wages; (b) Expenses; (c) Capital outlay.

The activities which were carried on in 1916 should possibly be granted an increase of 50 per cent over the 1916 figures for increased cost. New activities entered into since that date should be set up separately so that we can look at them.

Third. The immediate establishment of a comptroller general of the United States, with the powers and duties similar to those conferred upon the comptroller general of the Republic of Mexico, as shown by the translation of the law now in force.

The adoption of any one of these recommendations is largely contingent upon the adoption of the others. The organization as outlined will provide for a much more effective control over public expenditures than anything we have ever had. The members of this committee, I believe, clearly understand the difference between appropriation accounting and the ordinary corporation accounting, and I wish you to understand that it would be the first duty of the comptroller general to put into effect a brand new system of accounting and submit monthly to the joint committee or board of directors of each department or bureau of the Government a monthly comparative cost statement showing the expenses and the increases or decreases as compared with the preceding month. These cost statements should be in sufficient detail to give the chief executive of the department or bureau and the board of directors adequate and detailed information regarding the activities of the organization affected.

Much has been said in hearings about the danger of large increases in the number of high-salaried employees and of the lack of control over this phase of public administration. With a board of directors in continuous contact with each of the departments or bureaus of the Government, it could, through monthly statements of the employees, easily control this matter. As a matter of fact, before any changes in compensation the board of directors could very well require the head of the department or bureau to come to them for permission to make the changes.

Fourth. The House and Senate should have their separate appropriation committees. The Members of the House Appropriation Committee should be the chairmen of the various committees heretofore referred to. The Senate Appropriation Committee should be composed of the Senate members of the committees referred to. I do not know whether this program could be worked out, but almost anything can be is there is a will behind it.

The recommendations so far made are suggested as a means of securing immediate deduction in expenditures and increased efficiency and economy in service.

At this period of our national life, however, I venture to suggest that a complete reorganization of Government would be the most valuable service that could be rendered to the people at this time. The Government for a long time has grown, like Topsy. As new activities were undertaken they were assigned to the different bureaus or departments of the Government, largely because of special ability to handle the new activity in a given department or bureau and sometimes because of political activity.

No logical scheme of the development of Government along functional lines has been followed. Numerous instances have been related

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of inharmonious grouping of actions, the most notorious being that of the administration of health in the Secretary of the Treasury.

Education is under the Department of the Interior, and public works are very largely under the War Department.

I believe the time has now arrived when these various activities should be recognized by the creation of new departments, the heads of which would be Cabinet members. They are as follows:

The secretary of education,

The secretary of health, and

The secretary of public works.

The engineering societies of the United States, I believe, are almost unanimous in their advocacy of a department of public works, and Secretary Glass has expressed himself as favorable to the transfer of several of the activities of the Treasury Bureau to other departments of the Government.

While it would be a distinct advance if these three steps were taken, it would be unfortunate if the matter should stop there. There are any number of other changes which might be made in the Government service which require thorough study before action should be taken. To carry out a reorganization of the Government effectively, it seems to me that a joint committee of both Houses of Congress should be created, with adequate powers to study and investigate the activities of the Government and recommend to Congress the transfer of one bureau to another or to consolidate or merge such activities where necessary. A joint committee of this kind should be created to act for at least two years to enable it to carry out this work effectively.

Other matters which have a very vital bearing upon efficiency and economy in the Government service are those relating to the civil service. I have been advised more than once that under present laws it is practically impossible to discharge an employee who has been appointed from the civil-service list.

We have had for some time past a large number of temporary employees in the service who have proven themselves to be better workmen than the regular civil-service employees. Where an executive has both classes of employees in his department he will retain the unnecessary regular civil-service employees for no other reason than to enable him to keep the needed temporary employees.

The regulations require that in the reduction of personnel a temporary employees shall be discharged before a regular employee, and since a great many executives are forced to keep the temporary employees to do the work they are also forced to keep a large number of regular civil-service employees on the staff.

I have been advised by a leading civil-service reformer that it merely takes a statement from the head of a bureau or department to the effect that a civil-service employee is unsatisfactory to have him separated from the service. If this is true, there is a deplorable lack of information in the public service regarding the requirements and regulations of the civil service, because I have talked to a great many men who have had this very problem and they tell me that as a matter of fact they are compelled to prove their case.

We have for a great many years now been carefully safeguarding the entrance to public service and appear to have neglected to provide adequate means for the demotion or discharge of employees for

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unsatisfactory service. Some means should be found to give a head of a department more effective control over his employees.

Tied up with this question of civil service, of course, is the problem of retiring the superannuated employees. Sentiment appears to be more favorable to this now than for a great many years, and it is sincerely hoped that something can be done to eliminate the decrepit and tottering employees who now occupy desk room without any return. The employees I refer to have, of course, rendered long and loyal service to the Government and have earned the right to be retired at sufficient compensation to enable them to exist.

Budget: The problem of a national budget has two phases, to my mind, the first of which relates to our immediate urgent need of reducing public expenditures, and the second to the development of a proper budget practice.

I have already commented upon the first, and in regard to the second it seems to me that there can be no question but that the budget should be submitted by the heads of departments to the Secretary of the Treasury. He should arrange them in orderly manner and transmit them to Congress. If it is desired there is no reason why the President could not transmit the budget to Congress if he chooses, but it seems to me to be more business like to have it done by the Secretary of the Treasury, who is, or should be, a specialist in these matters.

Throughout the entire discussion of the budget in books and in hearings before the House committee there is an insistance upon the creation of a new organization which shall supervise the departmental estimates, and which shall have the power to decrease them if it deems it necessary. This idea of a new office superimposed upon all the Cabinet members seems to me to be a most pernicious idea. In actual practice the President will accept the statement of a Cabinet member as to the necessity of a given expenditure in preference to the statement of a budget commissioner to the contrary.

The question was asked me before the House committee as to whether I would give the Secretary of the Treasury the right to revise the estimates. I have forgotten what I said, but it seems to me that it is not the function of the Secretary of the Treasury to tell a department head that he needs two instead of three $900 clerks, or that he should use green lead pencils instead of yellow.

The functions of the Secretary of the Treasury consist of the important but perfunctory work of collecting, caring for, and disbursing public funds, the formulation of a financial program for the Government, and the initiation of measures to raise the funds needed to carry on the Government work.

The amount of revenues required depends upon the appropriations granted. In some countries the appropriations are limited by the available revenues, but this condition does not exist with us. The amount of appropriations granted depends upon what our legislators believe to be necessary.

It does not appear to me that the Secretary of the Treasury should advise Congress as to the necessity of appropriations requested, but he should take the leading part in Cabinet discussions on the departmental estimates.

His action in ordinary practice would consist of dealing with totals. Suppose, for instance, that the probable revenues to be re-

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ceived amounted to $3,000,000,000 and that the estimate submitted aggregated $4,000,000,000, it would then become his duty to advise the President of this fact, and to assist in working out a definite program either to increase revenues or to decrease the expenditures.

The details of administration, which now so largely occupy the time of Congress should be handled entirely by the boards of directors described.

For the last 8 or 10 years the theory has been advanced, and sometimes acted upon, that all Government service is necessarily inefficient, and that therefore there must be organized with the Government a small group of experts to teach the incompetent how to conduct the affairs of their offices.

I am quite confident that nothing should be done to in anyway take away from the executive heads of departments and bureaus the responsibility for the conduct of the organizations committed to their care.

It may be necessary to give the Secretary of the Treasury additional help to formulate the budget, but since the form and content of the budget is wholly within the hands of Congress the budget bureau may be unnecessary. Congress now prescribes the form of a budget and if it should prescribe a better method than now exists it probably would be necessary to give the Secretary of the Treasury additional help to enable him to do the work placed upon him.

One important point that I must not neglect to mention is that the budget in the future should be submitted as a complete document, and what is far more important, it should be finally voted upon by Congress in one bill.

It would be advisable also if Congress would adopt a rule to the effect that no increases could be granted except with the express request of the Executive. If this rule was adopted it would have a far wider effect than the mere reduction of expenditures; it would also mold our governmental machinery into a more homogeneous body since it would then become entirely useless for heads of departments, or their representatives to approach Congress and pull wires for new or increased appropriations.

It would in effect be a declaration by Congress to the effect that the President was the Chief Executive of the Government and that all civil servants must look to him for any alteration in their program which involves an increase.

As far as decreases are concerned, Congress, of course, has the right to reduce departmental estimates wherever it sees fit.

The greatest problem which Congress has in dealing with estimate is to secure accurate information as to the necessity and value of proposed work. It certainly needs an agency to do investigating work.

It has been suggested that the budget bureau should be an investigating agency, but if it is attached to the office of the President, or to that of the Secretary of the Treasury, Congress will not be much better off than it is now.

Since the comptroller, to be effective, must have the power of investigation, it seems to me that the additional duty of investigating for the purpose of determining the necessity for work being done can well be placed upon him, as was done in Mexico.

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The comptroller general: In providing for a comptroller general, I strongly urge that any law which may be passed define his powers and duties instead of conferring upon him all the indefinite powers and duties which are now conferred upon him by law or custom as the result of 130 years of our national life.

I desire to submit a copy of the law providing for the organization of the office of the controller general of Mexico. The law as written represents approximately what I would recommend for the United States. It is based largely upon the Philippine accounting act, modified to some extent by my experience in corporation accounting and to some extent by conditions in Mexico. I may add that our studies were extended to quite a number of foreign governments and the best elements of each considered and sometimes adopted.

The law, as it is written, provides that the controller general shall be appointed and removed by the President of the Republic. It was my original intention, which was contained in several of the drafts of this law which were prepared, that the controller general should be appointed by the President by the advice and consent of Congress. Conditions, however, made it advisable to change this to the form as you see it. The Mexican Congress was not interested in economy and efficiency, while President Carranza was very active in the matter.

In the United States, on the contrary, Congress is much interested in securing a reduction of expenditures, while the President is not.

The provision providing for the appointment of the controller general without the consent of Congress was prepared at the request of President Carranza. He realized thoroughly the necessity for economy and did not want the controller to be interfered with in any way in the performance of his duties.

The controller general of Mexico has exclusive jurisdiction over all matters relating to the audit and liquidation of all accounts of officers and employees charged with the receipt, disbursement, or custody of Government funds or property. He is also the bookkeeper for the nation.

In article 20 he is given the power to study the organization and business methods of the various departments and bureaus of the Government for the express purpose of securing economy in disbursements and efficiency in service.

This somewhat unusual power was conferred upon him advisedly. In making his reports, however, he was required to render one report to the head of the department and one to the President. He had no power to enforce any of his recommendations other than to prescribe accounting methods of the governmental unit under investigation.

There is one matter which I overlooked in writing the law which should be remedied, and that is in connection with the disposition of public property. The controller general has no power at present to pass upon or intervene in the disposition of property.

I believe that a recommendation was made in the House hearings that the duties of accounting and auditing be separated on the ground that auditing is a judicial function while accounting is an administrative one. This may be true from an academic standpoint, but in actual practive the work is so closely interwoven that it is not separated. I believe that some banks maintain an auditing organi-

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zation separate from the accounting one, but this is because a pre-audit is impossible from the nature of the business.

Practically without exception modern business large enough to warrant the procedure audits payments before they are made, and the distribution of the vouchers to the various accounts is one of the most important duties of an auditor.

He must necessarily keep books and accounts relating to the work done by him, and the chief accountant is usually responsible to him.

It is true that most business men now have an outside audit by certified public accountants, but such examinations are in reality audits of the auditors.

(The matter referring to the office of controller general of Mexico is here printed in full as follows:)

TRANSLATION OF CONTROLLER-GENERAL LAW OF MEXICO ENACTED JANUARY 18, 1918.

Venustiano Carranza, Constitutional President of the United States of Mexico, to its inhabitants, be known:

That the law of December 25, 1917, having provided for the creation of the Department of Control, it is now necessary to issue the law defining the organization, jurisdiction, and duties of said department. Therefore, in view of the extraordinary powers with which I am vested by Congress in financial matters, I have seen fit to issue the following:

GENERAL ORGANIZATION OF THE DEPARTMENT OF CONTROL.

ARTICLE 1. The Department of the Contraloria shall be in charge of an officer known as "Contralor General de la Nacion," who shall be the chief executive officer of the department. He shall be appointed and removed by the President of the Republic, to whom he shall be personally responsible.

ART. 2. This department shall also have an aduitor general, a chief accountant, a chief clerk, a corps of regional auditors, and such officers and employees as may be necessary for the performance of its functions. All of these officers and employees shall have such powers and duties as the controller may prescribe.

GENERAL JURISDICTION OF THE CONTROLLER.

ART. 3. The controller shall have exclusive jurisdiction over all matters relating to the audit and liquidation of all accounts of officers and employees charged with the receipt, disbursement, or custody of Government funds or property; over the liquidation of all debts and claims of whatever nature in favor of or against the Government; and over all accounting procedures, the preservation of vouchers, and the inspection of the accounting books, records, and documents connected with the accounts of the Government.

ART. 4. The decision of the controller shall be final and conclusive upon the executive branches of the Government regarding the legality of any disbursement or disposition of Government funds or property, but the head of the department of the Government aggrieved may appeal within the term of one year to the President of the Republic. If the decision of the controller affects a person not connected with the public administration, such person may within the same period of one year appeal before the proper courts.

POWERS AND DUTIES OF THE CONTROLLER.

The powers and duties of the controller are as follows:

Accounts and methods.—ART. 5. To keep the general accounts of the nation.

ART. 6. To prescribe the methods of accounting and rendering financial reports of all department, bureaus, offices, or branches of the Government.

ART. 7. To prescribe the procedure to be followed by all employees and agents charged with the handling of funds or properties of the nation in rendering their accounts, in forming and checking inventories, and in everything related with the sale or disposition of such properties in any form.

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ART. 8. To prescribe the form of the accounting books, receipts, vouchers, and all documents relating to the receipt or disbursement of funds, as well as any blanks connected with the accounts of officers, agents, or employees of the Republic of Mexico.

ART. 9.—To require daily, weekly, or monthly any special report or statement from any officer of the Government.

Inspection and audit.—ART. 10. To examine and inspect the books, records, and documents relating to or connected with the accounts of the nation, to examine and liquidate the accounts of all persons handling public funds or properties, whatever the reason such funds or properties may be in their possession, and to audit and settle all claims of whatever nature against any branch of the Government, as well as all credits in its favor, excepting such claims as are presented to the indemnization commission for damages caused by the revolution.

ART. 11. To notify, at least once a month, every employee or agent whose accounts have been audited in whole or in part, certifying any balance or difference which may result from said audit by reason of charges, suspensions, or disallowances made by the controller, or for any other reasons, provided that such charges, suspensions, or disallowances must be explained in detail, giving in each case the reason therefor; a period of 90 days counting from the deposit in the mails of said notification is allowed the agent or employee interested to answer the controller, and if at the end of said period the charges or suspensions have not been satisfactorily explained—unless the controller personally extends it in writing—the charges shall be considered as final, and the suspensions as definitely disallowed.

ART. 12. No officer or agent of the Government responsible for the receipt, disbursement, or administration of funds or properties of the Government may be relieved of his responsibility therefor by reason of loss, shortage, theft, or depreciation until the controller has given his account proper credit.

ART. 13. To waive errors or defects which may exist in vouchers or documents supporting accounts rendered, whenever in his judgment the operations were effected in accordance with the proper laws. The decisions of the controller in such cases shall be subject to the approval of the Chamber of Deputies, and for this purpose a detailed statement thereof shall be included in the annual report to the Secretaria de Hacienda on March 31 of each year.

ART. 14. To supervise the collection of all debts due the Government and the restitution of all funds and properties found to be the property of the Government as a result of the audit and settlement of accounts, referring such matters to the department interested or placing them in the hands of the "Procurador" for proper action.

ART. 15. To examine, count, and verify the cash in the hands of each officer or employee of the Government charged with public funds whenever he deems it necessary.

ART. 16. To inspect and verify whenever he deems it necessary, by means of an examination and count of stock, the quantities of supplies and materials in the hands of the various departments, bureaus, offices, and officers of the Government.

ART. 17. To inspect and verify whenever he deems it necessary, the amounts of stamps in the hands of the various officers and agents of the stamps tax department, the customs department, and the post office, as well as the "Jefaturas de Hacienda" (subtreasuries), by means of a careful examination of the stocks on hand; also to inspect and verify any other accounting documents of the Federal Government.

ART. 18. To adjust and check periodically the enlistments and discharges in the battalions, regiments, and other military corporations, making up the proper monthly budgets.

ART. 19. To call the attention of the proper administrative officer to expenditures of funds or properties which in his judgment are irregular, unnecessary, or excessive.

Investigations.—ART. 20. To examine the interior organization, methods, and expenditures of the various departments, bureaus, and other branches of the Government for the express purpose of securing economy in disbursements and efficiency in the service, to make recommendations and suggestions regarding the annual budget of expenditures of the officers of such departments, and regarding the revenue law such recommendations and suggestions shall be forwarded to the President of the Republic that he may take such measures as he considers advisable.

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ART. 21. In preparing administrative documents of evidence regarding claims, the controller, the auditor general, the district auditors, or any other officer of the departmento de contraloria duly authorized by the controller, may summon witnesses, administer oaths, and take evidence. In the pursuance of these provisions they may serve subpœnas and inforce the attendance of witnesses, also effect examinations of the accounting books of private individuals, who are required to show the necessary documents and books relating to the matter under investigation even though they themselves may not be the principal ones interested.

ART. 22. Any person giving false testimony to the controller, auditor general, or any other officer of the department of contraloria duly authorized to take such testimony shall be brought before the proper judicial authorities.

ART. 23. The powers granted to the controller by this law to enforce the civil or penal liabilities incurred by officers and employees handling public funds apply to cases of bribery.

Regional auditors.—ART. 24. The controller general shall establish such branches of his department as he may consider necessary in the various States and Territories of the Republic, which branches shall be in charge of regional auditors who shall perform such duties as shall be assigned to them by the controller general.

ART. 25. The following are the duties of the district auditors:

To examine and inspect the offices of all persons charged with the handling of funds or properties of the Federal Government in the zone under their jurisdiction, within which zone and in the exercise of their duties they shall have the powers granted to them by the controller or by proper regulations; to transmit the orders and dispositions of the controller to said persons; to issue instructions with reference to the formulation of accounts and reports; to receive and to audit such accounts and to perform such duties as the controller may assign to them; and finally, to give him notice of any case of fraudulent collection of taxes or fees that may come to their knowledge.

ART. 26. The employees of the branches of the department of control shall be directly responsible to the regional auditor and shall be appointed and removed freely by the controller.

Reports.—ART. 27. The controller shall before the 20th of each month prepare and transmit to the President the following statements covering the preceding month:

(*a*) A statement of operations.
(*b*) A balance sheet.
(*c*) A statement of revenues collected.
(*d*) A statement of expenditures.
(*e*) A summary statement of the condition of appropriations and funds.
(*f*) A detailed statement of the condition of appropriations and funds.

ART. 28. The balance sheet shall show the amounts of assets, liabilities, and reserves as shown by the general ledger.

ART. 29. The statement of operations shall show the following information:

(*a*) The amount of revenues collected, classified by main classes.

(*b*) The amount of expenditures, on account of operations, classified by the main departments of the Government.

(*c*) The amount of the excess of revenues over expenses of operations, or the excess of such expenses over revenues.

(*d*) The amount expended on account of interest on the public debt.

(*e*) The amount of expenditures for the acquisition of property, classified according to the main departments of the Government.

(*f*) The amount expended for the redemption of public debt, classified according to bond issues.

(*g*) The surplus or deficiency resulting from the comparison of total revenues and total expenditures.

ART. 30. The statement of revenues collected shall show the amount of main classes of revenues collected during the month, classified according to the various items of each class, the total to agree with the total amount of revenue shown in the statement of operations.

ART. 31. The statement of expenditures shall show the amount expended by each main department of the Government, subclassified according to the budget, and the total should agree with the amount of expenditures shown in the statement of operations.

ART. 32. The summary statement of the condition of appropriations and funds shall set forth the following information:

(*a*) The estimated amount of revenue uncollected.

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(*b*) The available cash balance.
(*c*) The unexpended balance of appropriations.
(*d*) The unexpended balance of special funds.
(*e*) The surplus accumulated from the budgets of previous years.

ART. 33. The detailed statement of condition of appropriations and funds shall consist of two parts, the first relating to appropriations, the second to special funds. The appropriation statement shall set forth, in respect to each appropriation, the following information:

(*a*) Number in the budget.
(*b*) Title.
(*c*) The unexpended balance brought forward from the previous year.
(*d*) Amount granted.
(*e*) Amount expended to the beginning of the month.
(*f*) Amount expended during the month.
(*g*) Unexpended balance at the end of the month.
(*h*) Amount of outstanding incumbrances.
(*i*) Unincumbered balance at the end of the month.

ART. 34. The statement of special funds shall show, in respect to each fund, the following information:

(*a*) The title.
(*b*) The unexpended balance at the beginning of the year.
(*c*) The amount expended during the year to the beginning of the month.
(*d*) The amount expended during the month.
(*e*) Unexpended balance at the end of the month.
(*f*) Outstanding amount of encumbrances.
(*g*) The unencumbered balance at the end of the month.

ART. 35. On or before March 31 of each year the controller shall prepare an annual report of the finances of the Government for the fiscal year immediately preceding, which, upon approval of the President, shall be printed and transmitted to Congress. Said annual report shall include:

(*a*) Such comments and recommendations relating to the public finances as the controller general may choose to make.
(*b*) A balance sheet as of the close of business December 31 last preceding.
(*c*) A statement of operations for the fiscal year last preceding.
(*d*) A detailed statement of revenues collected and accrued for the fiscal year preceding.
(*e*) A detailed statement of expenditures for the fiscal year last preceding.
(*a*) The title.
(*b*) The unexpended balance at the beginning of the year.
(*c*) The amount expended during the year to the beginning of the month.
(*d*) The amount expended during the month.
(*e*) Unexpended balance at the end of the month.
(*f*) Outstanding amount of encumbrances.
(*g*) The unencumbered balance at the end of the month.

ART. 35. On or before March 31 of each year the controller shall prepare an annual report of the finances of the Government for the fiscal year immediately preceding, which, upon approval of the President, shall be printed and transmitted to Congress. Said annual report shall include:

(*a*) Such comments and recommendations relating to the public finances as the controller general may choose to make.
(*b*) A balance sheet as of the close of business December 31 last preceding.
(*c*) A statement of operations for the fiscal year last preceding.
(*d*) A detailed statement of revenues collected and accrued for the fiscal year preceding.
(*e*) A detailed statement of expenditures for the fiscal year last preceding.
(*f*) A summary statement of fund balances and transactions for the fiscal year last preceding.
(*g*) A detailed statement of fund balances and transactions for the fiscal year last preceding.
(*h*) A detailed statement of the balances and transactions of the public and sinking funds for the fiscal year last preceding.
(*i*) A detailed statement of the balances and transactions of the currency for the fiscal year last preceding.
(*j*) A detailed statement of the accounts receivable due the Government at the close of business December 31, last preceding.
(*k*) A detailed statement of the loans due the Government as of the close of business December 31. last preceding.

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(*l*) A detailed statement of the taxes uncollected as of the close of business December 31, last preceding.

(*m*) A detailed statement of the balances and transactions of reserves for the fiscal year ended December 31, last preceding.

(*n*) A detailed statement of the balances and transactions of property for fiscal year last preceding classified by departments and by main classes of property.

(*o*) A detailed statement of the amounts which in the judgment of the controller must be accepted in spite of faults or defects in the corresponding vouchers and supporting documents, giving his reasons in each case.

PUBLIC DEBT AND MONETARY CIRCULATION.

ART. 36. To keep all accounts relating to the public debt.

ART. 37. To receive from the department of finance all bonds and coupons which have been redeemed and paid; to examine them, see that they are authentic and that the payment was properly made, and to file them after having canceled them, and to keep a detailed record of such bonds and coupons.

ART. 38. To sign all bonds and certificates of indebtedness issued by the Government, and no bond or any other document shall be valid without the signature of the controller.

ART. 39. To intervene in the amortization of the paper money issued by the Government.

DECISIONS.

ART. 40. To issue his decision in writing, at the request of any head of a department, bureau, or office of the Government or of any officer, employee or agent charged with the handling of funds or the administration of Government property, regarding the scope or purpose of any appropriation, special fund or reserve; the application of any revenue or legality of any disbursement; and the disposition of any property of the Government.

VIOLATIONS AND PENALTIES.

ART. 41. The controller is empowered to require the enforcement of civil and penal claims incurred in by all officers and employees of the Government in the handling of funds and properties of the Nation, whether they arise from embezzlement or from failure to comply with the instructions of the Department of Control, or from any other similar reason.

ART. 42. In the cases mentioned in the preceding article, if the guilty one should be a secretary, a subsecretary, or the chief clerk of a secretaria; the head of the university, the health, the general supply department, or of the department of military manufacturing establishments; or the governor of the Federal district or of one of the Territories, the controller shall render a report to the President so that he may decide what action is to be taken. Should the guilty one be an employee other than those mentioned above, the controller shall render a report to the interested secretaria or department, giving his concrete recommendations as to what action should be taken. Once said department had given its approval, the controller shall initiate the judicial proceedings. If the department does not give its approval, both offices (the interested department and the controller) shall, as quickly as possible advise the President of the Republic, who shall issue his decision through the department interested. The controller may ask the removal of the guilty employee in the form indicated.

DUTIES OF ACCOUNTABLE OFFICERS.

ART. 43. Every officer, employee, or agent of the Federal Government charged with the handling of funds or the administration of properties of the Nation shall render to the controller a monthly report, as well as any special reports that he may require.

ART. 44. Any officer, employee, or agent of the Federal Government charged with the receipt, disbursement, or custody of funds or properties belonging to the Nation who fails to render to the controller, within the first five days of the month, detailed accounts of his operations during the preceding month, or who fails to render such accounts when required to do so by the controller, shall be subject to the penalties prescribed by law. The controller is em-

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powered to extend the time required for rendering accounts, taking into consideration in each case any irregularities in the means of communication as well as the scope of the operations.

If an officer or employee violates a formal request; that is, if he fails to comply with a second order from the controller, the case shall be considered as disobedience to a legitimate order from the authorities; if he fails to comply with a general provision regarding the rendering of accounts, he shall incur a second degree fine which shall be enforced through administrative channels, upon the order of the controller.

ART. 45. Every person charged with funds or properties of the Government shall be responsible for any loss that might result from improper or illegitimate deposit, use or application thereof, as well as for all losses that may be attributed to neglect in safeguarding such funds or properties.

COLLECTION OF FUNDS.

ART. 46. Every officer, employee, or agent of the Government of Mexico collecting such funds belonging to the Government or entrusted to its care, shall issue an official receipt showing the date, origin, and reason for such collection.

DISBURSEMENT OF PUBLIC FUNDS.

ART. 47. Every disbursement of public funds effected within the city of Mexico shall be made upon a warrant issued either to the order of some creditor of the Government in the case of payments, or to the order of an officer, agent, or paymaster of said Government duly authorized to handle funds. Warrants issued directly to a creditor of the Government must bear a printed inscription reading "Settlement warrant," and those issued in favor of an officer, agent, or paymaster authorized to handle funds, one reading "Advance for official expenditures."

ART. 48. Warrants for the disbursement of funds may be issued by the secretaries, subsecretaries, and chief clerks of the secretaries, or by the heads of administrative departments.

ART. 49. No warrant shall be paid by the treasurer of the nation without the countersignature of the controller, the auditor general, or some employee or officer of the department of control who has been duly authorized in writing by the controller to sign such warrants.

ART. 50. Every disbursement of public funds in the City of Mexico, with the exception of salaries and wages, shall be made upon warrant issued in accordance with the provisions of this law, except that the controller may authorize payments in cash from funds advanced for official expenditures.

ART. 51. All payments, advances, or transfers of public funds made by officers or employees of the Government outside of the City of Mexico shall be made in accordance with regulations issued by the controller.

ART. 52. No appointment of officers, employees, and agents of the Federal Government charged with the handling of public funds or properties shall be valid until it has been registered in the department of control.

ART. 53. Every officer, employee, or agent of the Government charged with the handling of public funds or the administration of properties belonging to the nation is responsible for payments or disbursements made by him without written order from his superior: *Provided*, That such an order does not relieve the employee of responsibility for making illegal disbursements of funds or improper disposition of Government properties, but the superior officer issuing said order shall be first held responsible for the loss suffered by the nation.

CONTRACTS.

ART. 54. No officer, employee, or agent of the Government shall enter into any contract or obligation involving the expenditure of public funds unless there is an appropriation therefor, the unexpended balance of which, free from all other obligations, is sufficient to cover the expenditure involved.

ART. 55. For the purposes of the preceding article, if the expenditure involved amounts to ₱2,000 or over, the contract shall not be closed until a certificate has been applied for and received from the controller, to the effect that there is an available balance in the appropriation as prescribed by said article. This certificate shall be attached to and form part of the contract.

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When sending contracts to the controller for certification referred to in this article, they must be accompanied by an itemized statement from the officer or employee interested, showing all obligations contracted against the appropriation affected and not yet presented for audit.

SURETIES.

ART. 56. The controller shall fix the amount of the bond or surety to be given the Government by any contractor or seller, as well as by any officer, employee, or agent of the Federal Government charged with the receipt, custody or disbursement of funds, or the custody of properties of whatever description belonging to the nation.

ART. 57. No such officer, employee, or agent as referred to in the preceding article shall be relieved of the requirement of giving the Government surety or bond as fixed by the controller, and until the bond has been issued and accepted, such officer, employee, or agent can not take office or receive funds or properties as a representative of the Federal Government. The guarantee may consist in the deposit of the proper sum in cash or in bonds of the public debt, or in a surety bond, which shall be examined by the controller with reference to its form, legality, and responsibility of the surety, and no such bond shall be accepted by the Government until the controller has approved it; once approved, the bond shall be certified and recorded in his office. In case of a violation on the part of any controller, seller, or employee of the Government who is under bond, it is the duty of the controller to immediately proceed against the surety.

GENERAL DISPOSITIONS.

ART. 58. No officer, employee, or agent of the Government shall use forms or blanks for recording financial operations of the Government without previous approval thereof by the controller in writing.

ART. 59. Any order issued by an officer of the Federal Government which might result in a claim or might in any way effect the liquidation of any account, must promptly be made known to the controller, and the officer issuing such an order shall be subject to whatever dispositions the controller may issue.

ART. 60. The Secretaria de Hacienda shall turn over to the department of control all files relating to civil or penal claims against officers and employees of the Government, which are now in the hands of the legal department of said secretaria.

ART. 61. The controller is empowered to communicate directly with any officer, employee, or agent of the Federal Government whenever the business of his office requires it.

ART. 62. The controller is empowered to adjust all claims existing between the various departments, bureaus, or offices of the Government.

TRANSITORY.

ART. 1. The "Direccion de Contabilidad y Glosa," which was abolished by the decree establishing the administrative department of control, shall pass with all its personnel to said department.

ART. 2. The inspectors ("visitadores") now working under treasury of the Nation are also hereby transferred to the department of control.

ART. 3. The work relating to the audit and liquidation of accounts of collecting officers or paymasters, as well as all employees engaged in such work in the customs, and stamp-tax department, the mint, the post office, the telegraph office, and the treasury of the nation, as well as any other office of the Government, shall hereafter also form part of the department of control.

ART. 4. All faculties conferred upon the executive by special laws covering acts, which, according to this law, come under the jurisdiction of the department of control or are of a character similar thereto, shall be exercised through said department.

ART. 5. All circulars and depositions issued by the "Direccion de Contabilidad y Glosa" shall continue in force for application by the department of control in so far as they are not opposed to this law.

ART. 6. This law shall become effective January 1, 1918, and all decrees, laws, and circulars opposed thereto are hereby abrogated.

Given in the palacio nacional de Mexico this 18th day of January, 1918.

Mr. LILL. I shall be glad to answer any questions you may desir to put to me.

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Senator SIMMONS. What do you mean by the word "wasted"? Do you mean that there has been an unreasonable price paid, or do you mean that the money has been maladministered and not accounted for properly? What do you mean by saying "wasted"?

Mr. LILL. It may be activities which are now going on which have no real necessity, which we do not need, and possibly should not have.

Senator SIMMONS. That would be an unwise expenditure?

Mr. LILL. From the point of view of the taxpayer, it would be wasted.

Senator SIMMONS. That would not be waste, but would be an unwise expenditure. It may be authorized by law, and doubtless is authorized by law. I do not suppose there could be any expenditure unless there is an appropriation for it which is authorized by law.

Senator KING. Yet there may be unwise authority for the appropriation.

Senator SIMMON. Yes; that is what I want to find out, what he means by the word "waste" there; whether he differentiates that from an unwise expenditure of money by a department paying more for an article than the article is worth, or paying more for services than the services are worth. I would like very much if you could give us an explanation of the statement which you have made.

Mr. LILL. I think it can be easily substantiated. The mere fact that our current operating expenses are now 241 per cent over what they were in 1916 shows either that there has been a tremendous expenditure——

The CHAIRMAN. At what do you estimate the current operating expenses, Mr. Lill?

Senator KING. An increase of $2,500,000,000.

Senator SIMMONS. You do not mean to say that because the annual expenditures of the Government have increased during a certain period that that in itself indicates waste?

Mr. LILL. No; not in itself.

Senator SIMMONS. Its activities may have greatly increased; its business may have been expanded by an increase in its jurisdiction; an increase in the things that it has undertaken to do and must of necessity do.

Mr. LILL. Yes, sir. I only started to outline the activities. I think that what I term waste is due to activities which we should not have at the present time—or possibly do not need—but there is a very, very large element——

Senator SIMMONS. You mean activities duly authorized by law—by Congress?

Mr. LILL. Yes, sir. You take the administration of the governmental departments. They are entirely inefficient in a great majority of cases. Take an instance that came to my attention. There was a request put through by the General Staff calling for enough trucks at $8,000 to aggregate $1,250,000, just two or three months ago.

Senator KING. $8,000 apiece for trucks?

Mr. LILL. Yes, sir. That requisition came to the attention of Gen. Rogers, and if it had not it would have gone through. He took it up with the Secretary of War, and said:

> We can not have this kind of thing, because we have thousands and thousands of trucks out around the country now lying out in the weather, and if these trucks we have may not be exactly the kind that these gentlemen want for new equipment, yet they are plenty good enough.

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That is just one instance where the thing was stopped.

Senator SIMMONS. Now, you are describing a case of actual waste. If the Government is in possession of an ample supply of trucks to do the business, to go and buy a lot of other trucks which are not needed, of course, is a waste of public funds, but you do not mean to say that that character of waste would aggregate from 30 to 40 per cent of the actual expenditures of the Government?

Mr. LILL. Yes, sir; I am lumping the two together, sir. You take one office that I examined and reported upon. The total cost of that office was $14,000,000.

Senator SIMMONS. What office was that?

Mr. LILL. Well, would it be wise for me to tell that, Senator, in view of the fact that I have rendered a report on this thing to the United States Bureau of Efficiency?

Senator SIMMONS. If you do not think it is wise do not do it. I do not know. I will leave that with you.

Mr. LILL. The report has probably been submitted to the proper officers. I do not want to embarrass them in any way.

Senator KING. They know perhaps the facts obtained.

Mr. LILL. I do not know whether they know yet or not.

Senator KING. I know the department, and I agree with you it is more wasteful than you say it is. Go ahead.

The CHAIRMAN. I want to ask a question there when there is a digression. You said the increase was 240 per cent. Is that right?

Mr. LILL. Yes.

Senator KING. That is after eliminating your charges for interest and sinking fund?

The CHAIRMAN. That was the point I was going to ask.

That is exclusive of the interest?

Mr. LILL. Yes. That is only true as I qualify here. It is not wholly the operating expenses, because a part of that is due to our shipbuilding program, which is included in that item.

Senator JONES. Let me ask you something about that. There is our shipbuilding program, and there is our War Risk Insurance Bureau, and our pensions have been increased to soldiers, and the allotments to soldiers have been largely increased, and I think it is unfortunate to characterize all that as waste.

The CHAIRMAN. Senator Aldrich, if I remember, estimated about 30 per cent, I think, did he not, Senator Simmons, in his day?

Senator SIMMONS. Senator Aldrich said that if the Government was efficiently administered that $300,000,000 a year might be saved.

Senator KING. And that was when we were spending less than a billion dollars?

The CHAIRMAN. Yes; that was when our expenditures were less than a billion. Thirty per cent was estimated in his time.

Senator SIMMONS. But Senator Aldrich did not say that these expenditures represented actual waste.

The CHAIRMAN. Perhaps Mr. Lill speaks in the same sense that Senator Aldrich did.

Senator SIMMONS. There is a great deal of difference between saying that that much can be saved by efficiency, and saying that it is a waste.

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Mr. LILL. I believe I use the term there, probably meaning both. From my point of view there is money being spent——

Senator SIMMONS. I have no doubt there is waste now, and there was waste when Senator Aldrich spoke, but he did not speak of it as waste, and it is not waste in a legitimate sense.

Mr. LILL. The total expenditures of the department that I referred to were $14,000,000, and even the subordinates in there said that they could cut that estimate $5,000,000 with a few changes.

Senator SIMMONS. That would be saved by a more economical system.

Mr. LILL. If any money is taken in taxes that is not absolutely needed I consider it wasted from my point of view.

Senator SIMMONS. Notwithstanding the Government may have authorized the expenditure.

Mr. LILL. No. The Government is then responsible for the waste, instead of the department.

Senator KING. Do you think the recommendation which you made in the department which you are now discussing will be followed, and that $5,000,000 will be saved, or are they persisting in the same improper course?

Mr. LILL. I have no information, Senator, in the last month.

Senator KING. I know of one case where the Bureau of Efficiency made a recommendation whereby one little department of the War Department could save $1,000,000 in clerk hire, and it was turned down.

Mr. LILL. I know that office.

The CHAIRMAN. Before the committee adjourns I will ask leave to have incorporated in the hearings this digest of British practice with regard to budget making, by Mr. Charles Wallace Collins.

(The matter referred to is here printed in full, as follows:)

THE BRITISH BUDGET SYSTEM.

[A descriptive survey of the method of procedure relating to preparation, ratification, execution, and control. By Charles Wallace Collins, economist, legislative reference service, Library of Congress. Washington, 1920.]

This manuscript was written in 1914 and describes the method of procedure under the system of finance in vogue in the United Kingdom at that time. Since this procedure represented the normal practice for many decades preceding the Great War, which upset the systems of financial administration in all countries, no attempt has been made to revise the work as originally written. Two appendices are attached hereto which bear on certain proposed reforms of budgetary procedure made necessary by the experiences in war finance.

CHARLES WALLACE COLLINS.

WASHINGTON, *January, 1920.*

PREFACE.

This study is an attempt to give in brief descriptive form the whole course of the annual budget of Great Britain from its inception to its consummation; to trace as it were the money from the pocket of the taxpayer to the pocket of him who performs the service for which the money is paid. Emphasis has been laid upon the practical processes of these governmental operations, notice being taken of their philosophical and historical aspects only in so far as it was necessary to explain present-day procedure.

It is based primarily upon documentary material such as statutes, Parliamentary debates, reports of committees and commissions, treasury minutes, and other official papers. Among these may be mentioned the following: The estimates of expenditure; the appropriation accounts; the reports of the public

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accounts committee; and the standing orders of the House of Commons. These are all curernt papers. Perhaps the most important single source for the study, both of principle and of method, of this subject is the report of the select committee on national expenditure of 1902, supplemented by its final report of 1903. Of great value also, for the study of contemporary public finance, are the three recent reports of the select committee on estimates, viz: 1912, dealing with the civil service; 1913, with the Navy; and 1914, with the Army. These four committee reports contain a mass of testimony by high officials in the Treasury and in the other departments as well as by financial experts in and out of Parliament. They give a first-hand view of the inner workings of departmental finance.

The report on public income and expenditure, 1868–69, forms in itself a source book for a study of the financial history of Great Britain up to 1869; the handbook to the reports of the public accounts committee, 1857–1907, and the epitome of the reports of the public accounts committee, 1857–1910, are also rich both in practical and historical information. These, supplemented by Iddesleigh, Twenty Years of Financial Policy (London, 1862); Buxton, Finance and Politics (London, 1888); and Mallet, British Budgets 1887–88 to 1912–13 (London, 1913), form a nucleus for a study of the history of British finance from the earliest times to the present. These last-mentioned works contain in tables and appendices, as well as in text, much information of primary authority, and form what may be called a chronological digest of English budgets for the past century or more.

CHARLES WALLACE COLLINS.

WASHINGTON, *November, 1914.*

CHAPTER I. INTRODUCTION.

Position of the cabinet.—In making a study of the public finance of Great Britain it may be well for Americans to bear in mind certain constitutional principles which do not inhere in our system of government. First among these is the position occupied by the cabinet. In England the cabinet—consisting of the prime minister and his colleagues, selected by him from the more important members of the ministry—has active charge both in and out of Parliament of making all proposals for raising public revenue and of specifying where and how it shall be spent.

It is true that the House of Commons has absolute control over the granting of money to the Government. It is far more powerful in this respect than is the House of Representatives of the United States. There is no power of veto over the acts of the Commons and in the case of money bills there is no power of amendment or of rejection in the House of Lords. Since the Parliament act of 1911 the House of Commons, in fact as in theory, holds the sovereign power of the nation as relates to money bills. No other branch of the Government, be it executive or judicial, can in any way limit its power or annul or modify its acts.

Standing order 66.—But the House of Commons can and has limited its own powers. It has by a standing order divested itself of all power of initiative in regard to public money. This principle has been in operation for 200 years, the standing order having been first adopted in the year 1713. It was reaffirmed in 1852 and again in 1866. It reads in part as follows:

"This house will receive no petition for any sum relating to public service, or proceed upon any motion for a grant or charge upon the public revenue * * * unless recommended from the Crown." (S. O. 66.)

The Crown.—The word "Crown" as here understood and as now used in British politics has no reference to the person of the King. The King has nothing to do with the public revenue, either in theory or in fact; nor has he had since the fall of Charles I, in 1649. The Crown is but another name for the leaders of the party in power, practically speaking. It may be used synonymously with the expressions "executive government of the day," "the ministry," "the administration," or "the cabinet." In practice it means the organized ministry under the control of the cabinet, at the head of which is the Prime Minister.

Nature of.—The "Crown" as thus understood is clothed with no superfluous dignity but contends with the opposition on the floor of the House, defending its policy and carrying out its program by active participation in legislation.

This principle is clearly expressed in the unique and oft-quoted words of Sir Erskine May: "Thus the Crown demands money, the Commons grant it,

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and the Lords assent to the grant; but the Commons do not vote money unless it be required by the Crown; nor do they impose or augment taxes, unless such taxation be necessary for the public service, as declared by the Crown through its constitutional advisers." (May, Parliamentary Practice, 545.)

Power of House delegated to the Crown.—It therefore appears that, in actual fact, the House gave over to the Cabinet all power to make demands for money and for taxes. The House can grant only what is asked. It can not grant a penny unless the administration specifically recommends it. It can neither increase the amount nor change in any way the purpose for which it is to be spent. It will not proceed upon any motion of a private member involving in any way the public revenue.

House may reduce.—The House has retained the power to reduce any items of expenditure or any proposed tax or duty. In actual practice this is rarely done. If a motion to reduce were carried on a bona fide vote on a substantial issue, it would mean the defeat in Parliament of the party in power. The ministry would be compelled to resign or to ask for a dissolution of Parliament, and face a vote of confidence in a general election. In other words, the question would have to be taken to the people. Motions to reduce, as a matter of form, are regularly made for the purpose of opening debate on any particular item of the estimates.

This principle, of such vital importance, rests on no act of Parliament, but simply upon a standing order of the House. Practically it is one of the fundamental principles of the British constitution.

Reasons for giving power to the Crown.—Why then did the House of Commons divest itself of this great power over the national purse and grant it to the Crown? This was an act of self-sacrifice in appearance only. In 1713, the date of the standing order, the Crown had already been reduced to a democratic ideal. The king was no longer to be feared or guarded against. Responsible party government was already in vogue. The Government was in the hands of the leaders of the party in power, who were themselves members of the House. The act was not, therefore, a granting of power to some exterior and rival force.

Division of labor.—It was, in the first place, a division of labor, a movement in the direction of greater efficiency and economy in the administration of affairs involving the people's money. It was not a concession to aristocracy or privilege.

Technical skill.—The affairs of the nation were increasing in volume and complexity. Intimate technical knowledge of statecraft at home and abroad and a high degree of skill developed through a first-hand touch with matters of administration were felt to be needed in order intelligently to estimate revenues and expenditures. The House of Commons, with its large and increasing membership, could not as a body deal with these matters of finance in its detailed and technical aspects without considerable confusion and loss. So the Commons delegated to the leaders of the Government from their own midst all power to ask for money for the supply of the Government, both as to revenues and expenditures, allowing them to fix the limits to the demands to be made on the people for taxes, direct and indirect, and to determine in detail the purposes for which these revenues were to be spent.

The Commons grant.—The Commons grant only the specific amounts asked for and no more. When thus granted, the money can be spent only for the purpose specifically designated in the grant. The House, through the proper channel (see Chap. VI), sees that there is no deviation from this course.

Prevention of extravagance.—In the second place, in relinquishing this power over public money, the House prevents the extravagance due to the initiative of private members. There can be no agreements and concessions between members of borough and borough or of county and county. There is no opportunity for "logrolling." Neither can the House be moved by oratory or stirred by some strong sentiment to loosen the strings of the public purse.

Protection to the treasury.—This is a great protection to the treasury. The figures before the House, presented by the Government as the result of long and careful study by high officials in the permanent civil service, after having been checked up and supervised by the political heads of the departments which spend the money, must stand as they are recommended. The treasury knows at all times what demands can be made on it, so that there is never any fear of a deficit due to the benevolence of a free-handed House.

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Private member.—All discussions in the House over the estimates must relate to questions of policy and administration in the departments whose item of expenditure is up for passage, or on the financial policy of the Government in general debate. The only way that a private member could gain a hearing on a question of public finance would be by persuading the Government to adopt his measure as its own.

Fixing responsibility.—In the third place, this action of the House places the responsibility for the management of public money upon the administration. Those who are responsible for the administration of the nation's affairs, who formulate its policy, and into whose hands the money to be spent is put, are made responsible for the amounts for which they ask, both as to proposed taxes and duties, and estimated expenditures. The ministry is taken at its word as the financial needs of the Government but is strictly accountable to the House.

Democratic movement.—This is a movement rather toward democracy than away from it. The members of the ministry, which include all of the political heads of the governmental departments—now about 60 in number—are elected by the people to the House. Twenty-one of them are in the cabinet proper. If they should prove negligent or inefficient in the use of the public money, a test vote in the House would be forced by the opposition at the first opportunity and might lead to the defeat of the ministry in Parliament.

The opposition.—The opposition are constantly on the watch to take advantage of any weakness in policy or administration which they show to the public in and out of Parliament. The aim of the opposition is to force the administration to go before the people for a vote of confidence. The aim of the ministry, as leaders of the party in power, is so to manage the affairs of the nation as to make this appeal unnecessary and ineffective.

Position of the House strengthened.—The House in granting to the ministry the sole power of recommending the expenditure of public money and the proposal of revenue, did not weaken its strategic position. It strengthened it. The House can now the better criticize the financial policy of the Government, since the responsibility therefor is definitely fixed upon the shoulders of the cabinet. But it must be borne in mind that the House does not have to accept this policy. If at any time it disagrees with the cabinet, it can force a resignation of the ministry or a dissolution of Parliament and an appeal to the country in a general election.

Comparison with United States.—In order to get a clearer view of this great principle of the British constitution, it may be well to consider for a moment the situation in the United States. Here Congress has and exercises both the power of initiative in respect to the public money and the power of granting it. The House and Senate each have the power of proposing measures affecting the public purse, and the Senate has unlimited power of amending money bills originating in the House. What we call the administration—that is to say, the President and his Cabinet—is not responsible for the financial policy of the Government. The spending departments, it is true, present estimates for current expenditure through the medium of the Treasury to Congress, but these are in the nature of suggestion only. They have no binding effect, but may be ignored entirely or changed in any way.

Standing committees.—The heads of the departments can not come in on the floor of the House or Senate to explain their needs or defend their actions in the face of criticism. Piece by piece, the whole scheme of public finance is worked out by the several standing committees of both Houses, to whom all such questions are referred. These work under the influence of the general policy of the party in power, but independently and sometimes in conflict.

Hearings.—Before these committees representatives from the executive Government may and do appear, at what are called hearings, to answer such questions as may be propounded to them by members of the committee. The committees are, however, at liberty to ignore the recommendations of the departments and proceed to draft the bill with such grants of money as they may see fit. This they often do. They may reduce, increase, omit, or insert new items of expenditure, in each case at variance with the recommendations of the administration.

Money bills in Congress.—When an appropriation bill is favorably reported to either House by a committee, it roughly corresponds at this stage to some portion of the estimates presented to the British Parliament. That is to say, this is the first time that the House or Senate has before it for discussion any authoritative specifications of governmental expenditure.

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Changes on the floor.—The similarity ends here, for after a bill is reported it is still subject to amendment from private Members on the floor. The complexion of the bill may be radically changed by either House or by both Houses. A money bill reported to the House may be changed there, changed again by the Senate committee having charge of it after its passage in the House, further changed on the floor of the Senate, changed again by the joint conference committee of both Houses, and reported back to the respective Houses for acceptance subject to further changes. This process is continued until agreement is reached. It may turn out to be an agreement to disagree. The whole bill may be tabled, recommitted, or otherwise defeated without any immediate effect upon the party in power.

Responsibility of Congress.—So far as the financial policy of the Government is concerned, the great spending departments have no other function than that of suggestion in the initial stages. Congress itself is responsible for the amounts granted and for the purpose for which these sums are to be spent. The departments simply spend what is thus given them and adjust their affairs accordingly.

British cabinet control.—Under the British system the cabinet has complete control over the initial stage of the budget. The cabinet meets and decides on a general financial policy. All new measures involving expenditure of public money, such as workmen's insurance, general increase of salaries in the civil service, and the like, are here settled. The estimates for the current expenses for the coming year are then prepared by experts in the civil service in the several departments which spend the money. Estimates are likewise made for what revenue will be needed to meet the estimated expenditure and their sources designated. All is done under the general supervision of the treasury. These estimates are presented to Parliament by representatives of the cabinet.

The estimates.—The financial secretary to the treasury, under the supervision of the chancellor of the exchequer, stands sponsor, in behalf of the treasury, for the estimates of the civil services, and the secretary of state for war and the first lord of the admiralty for those of the Army and Navy, respectively. Parliament receives these estimates and passes them without change. It can reduce them, but, for reasons that we have seen, this is in practice extremely rare.

The ministry, including all of the heads of the governmental departments, who have actual supervision over the spending of the money and under whose supervision the estimates are prepared, sit in the House and look after the interests of their departments.

Thus it is seen that not only does the executive government, being also legislators, prepare the money measures, which are not changed except at its suggestion, but it also pilots them through the House in a very practical and effective manner.[1]

CHAPTER II. PLAN.

1. Receipts:
   - a. Heads of revenue—
     - A. Taxes—
       1. Customs.
       2. Excise.
       3. Estate duties.
       4. Stamps.
       5. Land tax.
       6. House duty.
       7. Income tax.
       8. Land-value duties.
     - B. Nontax revenue—
       9. Postal service.
       10. Telegraph service.
       11. Telephone service.
       12. Crown lands.
       13. Receipts from Suez Canal shares and sundry loans.
       14. Miscellaneous.

[1] For a discussion of this principle of executive initiative as to money bills, see May, Parliamentary Practice, 11 edition, 1906, 545ff; Todd, Parliamentary Government in England I, 428ff; Anson, Law and Custom of the Constitution, 4 edition, 1909, I, 271ff; Redlich, Parliamentary Procedure, III, 120; Lowell, The Government of England, I, 279ff.

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1. Receipts—Continued.
   b. Classification—
      1. Permanent—
         (a) not a fixed classification.
         (b) until Parliament otherwise determines.
      2. Temporary—
         (a) annual revenue.
         (b) depends on national needs.
   c. Paid into the consolidated fund.

Expenditures:
   a. Consolidated fund services—
      1. National debt services.
      2. Development and road improvement.
      3. Payments in aid of local taxation.
      4. Miscellaneous—
         (a) King's civil list.
         (b) Salaries of judges.
         (c) Other fixed charges.
   b. Supply services—
      1. Army.
      2. Navy.
      3. Civil services—
         Class I. Public works and buildings.
         Class II. Salaries and expenses of civil departments.
         Class III. Law and justice.
         Class IV. Education, science, and art.
         Class V. Foreign and colonial services.
         Class VI. Noneffective charitable services.
         Class VII. Miscellaneous.
         Class VIII. Insurance and labor exchanges.
      4. Revenue departments—
         (a) Customs.
         (b) Inland revenue.
         (c) Post Office.
      5. Extraordinary expenditures—
         (a) Votes on account.
         (b) Supplementary grants.
         (c) Votes of credit.
         (d) Appropriations in aid.
         (e) Grants in aid.
         (f) Excess grants.
         (g) Intercepted revenue.
         (h) Exceptional grants.

The word "budget" is used to describe the whole governmental scheme of finance for any given fiscal year. It includes both receipts and expenditures. It is usually divided into four phases: (I) Preparation, including the collection of data and the preparation of estimates based thereon. (II) Ratification, including the presentation of estimates before the legislature, discussion in debate, and final enactment into law of the proposed financial scheme. (III) Execution, including methods of collection and payment. (IV) Control, including all the methods for insuring legality, regularity, economy, and efficiency in the use of public money. (Stourm. Le Budget, I; Bastable, Public Finance, 734.)

In England, the fiscal year begins on April 1 and closes March 31. On the latter day all accounts are closed and whatever balance of funds there may be in the hands of any department, not having been spent for the purpose for which it was granted, must be paid back into the consolidated fund. All accounts begin anew on April 1. (Lowell, Government of England, I, 119.)

As a general rule, all receipts from whatever source of revenue are paid into the consolidated fund. The exceptions are few and unimportant. This fund is kept on deposit, as a regular bank account to the credit of the Government in the Bank of England and the Bank of Ireland. (Anson, Law and Custom of the Constitution, Vol. II, Pt. II, 137.) The revenues of the Crown are grouped and collected under the following heads:

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HEADS OF REVENUE.

(I) *Taxes.*—This includes receipts from (1) customs, (2) excises, (3) estate duties, (4) stamps, (5) land tax, (6) house duty, (7) income tax, (8) land value duties.

(II) *Nontax revenues.*—This includes receipts from (1) postal service, (2) telegraph service, (3) telephone service, (4) Crown lands, (5) receipts from the Suez Canal shares and sundry loans, (6) miscellaneous. This makes a total of 14 separate heads of revenue. (Anson, II, Pt. II, 114.)

Temporary and permanent revenue.—The majority of the taxes and duties come from permanent sources, that is to say, they are regulated by statutes remaining in force "until Parliament otherwise determines." But as it is the aim of the budget so to balance receipts with expenditures that the Government will be asking each year for no more taxes than it actually needs, it has become the constitutional practice to make at least one important customs duty and one important direct tax subject to renewal each year. For many years these have been the tea duty and the income tax. (Redlich, Procedure of House of Commons, III, 126; Lowell, I, 118.) This arrangement rests on the theory that the direct tax will fall as a burden upon the wealthier classes while the indirect tax will be borne by the masses.

Expenditure.—The expenditures of the Government fall into two great classes: (I) Consolidated-fund services; (II) supply services.

Consolidated-fund services.—Consolidated-fund services are fixed charges against the consolidated fund. They are not subject to annual renewal by Parliament, but are fixed by statute or by legal title. They form somewhat less than 20 per cent of the total annual expenditure. They are divided into four groups: (1) National-debt services. This forms the most important item and includes the interest, management, and all expenses incidental to the national debt; (2) development and road improvement; (3) payments in aid of local taxation; (4) miscellaneous. This includes the King's civil list, salaries of the judges, the speaker's income, certain pensions, annuities, and other less important charges. (Anson, II, Pt. II, 152; Redlich, III, 128–129.)

Supply services.—The great spending departments of the Government come under the head of supply services. This includes (1) army, (2) navy, (3) civil service, and (4) revenue departments.

Civil service.—The civil services are divided into eight classes, as follows:

Class I. Public works and buildings.
Class II. Salaries and expenses of the civil departments.
Class III. Law and justice.
Class IV. Education, sciences, and art.
Class V. Foreign and colonial services.
Class VI. Noneffective charitable services.
Class VII. Miscellaneous.
Class VIII. Insurance and labor exchanges.

(See Great Britain Estimates, civil service, 1913–14, Appendix No. 3.)

Revenue departments.—The revenue departments, for the purpose of expenditures, are dealt with under three heads: (1) Customs, (2) inland revenue, (3) post office.

To summarize, the plan of the budget covers the entire field of national receipts and expenditures for the fiscal year of April 1 to March 31 each year, including on both sides some permanent and some temporary features.

Exceptions to the ordinary budget.—Occasions arise from time to time making necessary certain financial activities on the part of the Government outside of the scope of the ordinary budgetary procedure. For the purpose of the budget these are designated as follows:

1. *Votes on account.*—Delay in ratifying the budget before April 1 leaves the Government without funds on which to run. This need is met by voting certain sums to cover the necessary period. Since the budget is usually passed toward the close of each parliamentary session this procedure is usually invoked.

2. *Supplementary grants.*—A department may find that it has imperative need for more funds than were originally provided for in the budget. This is met by a supplementary grant by Parliament.

3. *Votes of credit.*—Sudden demands, such as unforeseen military expenditure, sometimes make it necessary for Parliament to grant a lump sum to the Government. This practice has been resorted to rarely.

4. *Interception.*—A practice in vogue since 1888 of diverting certain of the proceeds of the imperial taxes to the local taxation accounts without annual

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grant from Parliament and without making them a statutory charge on the consolidated fund.

5. *Appropriations in aid.*—A practice beginning in 1881 and made statutory in 1891 of allowing departments of the Government to hold and use for their immediate needs certain designated sums which come into their hands rather than to require them to pay them into the exchequer. (See Public Accounts and Charges Act, 1891.)

6. *Grants in aid.*—Occasionally a lump sum is granted by Parliament to a person, institution, or colony. This form of grant is not subject to audit and the recipient thereof is not subjected to any detailed control as to the way in which the money should be spent. It is an out-and-out gift.

7. *Excess grants.*—These are made to cover certain excess expenditures which a department may make beyond its allotted appropriation out of other funds which are advanced to it for the purpose.

8. *Exceptional grants.*—These are made, as the occasion may arise, for some imperial undertaking as, for example, the purchase of the Suez Canal. (For a discussion of these see Redlich, III, 130–133. See also Rep. Sel. Com. on Nat. Expend., 1902, pp. 77, 87, 144, 212, 223, and Appendix 12.)

CHAPTER III. PREPARATION.

1. Position of treasury.
    a. Organization.
    b. Responsibility.
    c. Control.
        1. Civil service and revenue departments.
        2. Army and navy.
2. Estimates of expenditures.
    a. Form.
        1. Classification of material.
        2. Civil service and revenue departments.
    b. Civil service and revenue departments.
        1. Treasury circular.
        2. Accounting officers.
            i. Appointment.
            ii. Duties.
        3. Estimate clerk of treasury.
            i. Function.
            ii. Method.
            iii. Junior clerk.
        4. Principal clerks of treasury.
            i. Rank.
            ii. Duties.
                (a) Relation to expenditures.
                (b) Relation to estimates.
        5. Financial secretary to treasury.
            i. Discussion of estimates with departments.
            ii. Revision.
            iii. Responsibility.
        6. Chancellor of the exchequer.
            a. Political responsibility.
            b. Presentation of estimates to parliament.
    c. Army and navy.
        1. Limits of treasury control.
        2. Policy involved.
        3. Ministerial responsibility.
        4. Separate and independent finance departments.
        5. Routine of preparation.
            i. Treasury sanction for a new proposal.
                (a) During the year.
                (b) On final submission.
        6. Cabinet control.
3. Estimates of revenue.
    a. Tax collecting.
    b. Prepared by treasury.

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The preparation of the budget entails a vast amount of detailed labor on the part of numerous minor officials as well as a very strict supervision and control by those who stand responsible for the finances of the Government. In this regard the position of the treasury is preeminent.

Treasury—Organization.—Nominally the treasury is under the control of a commission known as the treasury board, consisting of the first lord, the chancellor of the exchequer, and several junior lords. Since 1856 the meetings of the board have been discontinued. It has now only a political significance.

First lord.—The first lord of the treasury is usually the prime minister, who is entirely occupied with the duties of the latter office. As first lord he dispenses the extensive patronage of the treasury.

Junior lords.—There are usually three junior lords. Their duties are chiefly political, acting as assistant whips on the part of the Government in the house.

Chancellor of the exchequer.—The chancellor of the exchequer is parliamentary chief of the staff of the treasury, He is a finance minister and a cabinet officer. Upon him falls the responsibility of the affairs of the treasury. It is his duty to the public to see that, in the annual budget, no more money is asked of the taxpayer than is necessary for the current expenses of the Government economically administered. He must thus, each year, adjust revenue to expenditure. He himself is concerned only with the larger matters of policy, leaving the details to his subordinates, the greater proportion of which falls to the lot of the permanent clerks.

Financial secretary.—The immediate subordinate of the chancellor of the exchequer is the financial secretary of the treasury. He is a political officer, a member of the ministry, having a seat in Parliament. He is responsible for the estimates prepared each year of the revenue and civil-service departments and has to do the drudgery of the business of the treasury in Parliament.

The above are political officers, who change with the rise and fall of parties.

Permanent staff—Permanent secretary.—The real consecutive work of the treasury outside of matters of policy is done by the nonpolitical permanent staff, in the civil service, the chief of which is the permanent secretary. (Anson II, pt. 1, 173ff: Higgs, Financial System of the United Kingdom, 80ff.) Under him are six principal clerks, each of whom, as head of a division of the treasury, has direct supervision over the financial activities of one or more of the departments of the Government. Under each principal clerk are several clerks who are occupied with various details.

Estimates clerk.—One first-class clerk in the treasury is detailed to examine all the estimates of expenditures presented by the civil-service departments. He is called the estimates clerk. (Rep. Sel. Com. on Est., 1912, Q 16ff; Rep. Sel. Com. on Nat. Exp., 1902, Q 1–3 and Q 86–89.)

Treasury control.—The assent of the treasury is necessary to every measure increasing or tending to increase the public expenditure. This gives it a wide supervision over all of the financial operations of the departments of the government, and excluding to a certain degree the army and navy, a strict and active control. No new post or increase in any salary in the civil service can be obtained without the sanction of the treasury. (Sel. Com. Nat. Exp. 1902, Q 2527; Anson II, Pt. II, 153.)

Accounting officers.—This control is facilitated and strengthened by the appointment, with treasury sanction, of an accounting officer for each department of the civil service. His duties are primarily to his own chief, but his relationship to the treasury is very close. To him the treasury looks for economy and efficiency in matters of finance in the department. He is usually a high permanent official, often the permanent head. (Sel. Com. Nat. Exp. 1902, Q 6–17, 117–119, 130–132.)

The army and navy have their own finance departments independent of the treasury as to the details of their operation.

The estimates—Form and contents.—The first stage of the preparation of the budget consists in the making of estimates of expenditure for the supply services of the government. These must be ready for presentation shortly after the opening of parliament. In their final form they appear in four quarto volumes, one each for the army, navy, civil service, and revenue departments. (Higgs 5.) For example, the volume for the civil services for 1912–13 contains 603 pages, for the army 225, and for the navy 286.

Civil services.—The estimates for the civil services and revenue departments contain a memorandum from the financial secretary to the treasury giving a concise survey of the estimates; a list of charges transferred from local to

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imperial funds; a table giving a comparison of expenditure for the preceding 10 years; then follow the estimates proper, arranged under the eight classes of the civil services, and of the three revenue departments.

Each class is divided into a number of "votes" or grants. They are the units which are voted by parliament. For instance, the estimates for Class I, public works and buildings for 1912–13, contained 16 "votes"; Class II, salaries, etc., 43 votes. Each "vote" is subdivided into "subheads" and each "subhead" is divided into "items." Thus under Class I, "vote" 6, arts and science buildings, Great Britain, appear four "subheads," A. New works, alterations, additions. B. Maintenance and repairs. C. Furniture. D. Rents, insurance. Under each of these "subheads" as an "item" appears the name of the British Museum. (See Estimates 1912–13.)

All through the estimates in every table appears the amounts granted the previous year, with the figures showing the increase or decrease as compared with the current estimate. At the close of the volume is a complete index.

Army and Navy.—The estimates for the army and for the navy are arranged on the same general plan as the civil services. They contain 15 "votes" each, arranged by "subheads" and "items." Each has a number of appendices giving material supplementary to the "votes" and other information. There are also several summary and comparative tables of expenditure. Each has a lengthy table showing in detail the entire establishment of the army and navy respectively. The army estimates are accompanied by an explanatory statement from the secretary of state for war by whom they are presented to Parliament and a further statement giving a brief summary of the previous year's work. Similar statements for the navy estimates are signed by the first lord of the admiralty.

Preparation of civil service estimates.—In making a study of the technical and mechanical features of the preparation of the estimates, it becomes necessary to consider the civil service and revenue departments somewhat apart from those of the army and navy. There are certain differences both as to the method of procedure and as to the principles involved, due to the independence of the army and navy leading to their direct responsibility to Parliament and the consequent lessening of Treasury control. This independence of the army and navy is due (1) to the matters of policy which are naturally involved in the estimates and (2) to the extremely technical nature of the works of these departments calling for the knowledge of experts in each particular field. The treasury stands responsible for the civil service estimates while those of the army and of the navy are sponsored on the floor of the house by their respective ministers. (Rep. Sel. Com. Nat. Exp. 1902. Q 35–36, 124–129, 104–110. 530f, 590f, 817–825, 1148–1458.)

Preliminary conferences.—The big spending departments of the government in the civil services are in constant communication with the treasury throughout the year, bringing before the treasury any changes that may make necessary an increase in the public expenditure. The decisions arrived at from these informal conferences are embodied in the estimates for the succeeding year. The principal portion of these discussions are carried on between a principal clerk of the treasury and the accounting officer of the department concerned. In case of disagreement, the dispute is referred to higher officials in the treasury, to the permanent secretary, the financial secretary, or to the chancellor of the exchequer in succession until a settlement is reached. As a result of this procedure, when the estimates are presented to the treasury practically all the changes and new proposals in them have already been discussed and settled. (Sel. Com. on Est. 1912 Q 37–40.)

Treasury circular.—On the 1st of October each year there is addressed to the accounting officers in the civil service and revenue departments a circular letter calling on them to forward to the treasury by December 1 their estimates for the services administered by their departments for the year commencing on the following April 1. (See Appendix No. 1.) This circular, called the "Estimate circular," impresses on the accounting officer the duty of strict economy. Accompanying the estimate circular are blank forms based upon the estimates for the previous year with blank spaces for the current estimates, and a blank form for the explanation of any increase or decrease in the estimates as compared with the previous year. (Rep. Sel. Com. Nat. Exp. 1902, Appendix 1; Rep. Sel. Com. Est. 1912, Appendix 1, Q 5–7, 14.)

There is an accounting officer for each "vote" of the estimates; that is to say, each "vote" is prepared under the direction of an accounting officer who is responsible for it. There are 60 or 70 accounting officers, some of whom have

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more than one vote to look after. The accounting officer of the treasury has charge of 15 or 16 votes. (Rep. Sel. Com. Nat. Exp. 1902, Q 6–17; Rep. Sel. Com. on Est. 1912, Q 177–180.)

Skeleton estimate.—The departments, as a first stage in the formal preparation of the estimate, submit to the treasury a sketch or skeleton estimate. Those go to the chancellor of the exchequer, who at the same time is considering what are his prospects of revenue. He balances these preliminary estimates against the present state of taxation and determines what changes, if any, will be necessary to balance revenue with expenditure for the following year. The whole matter is then taken up in the cabinet and the outlines of policy stated. It is then referred back to the treasury with instructions to proceed with the preparation of the formal estimates along the lines agreed upon by the Government. (Rep. Sel. Com. Nat. Exp. 1902, Q 2527, 2529.)

Under instructions from the treasury the several accounting officers next proceed to prepare the detailed "votes." (For Treasury regulations, see Appendix No. 2.) Each "vote" is then submitted to the parliamentary head of the department for revision. The actual work of putting the figures in the estimates is done by an accountant in the department called the clerk in charge of accounts. He makes a draft estimate and submits it to the accounting officer. (Sel. Com. on Est. 1912, Q 116.) They are next sent to the treasury, accompanied by the forms of explanation as well as by a letter which usually deals with any broad questions arising from the estimate, to which the particular explanations do not apply, and also draws attention to any items for which special treasury sanction is required and has not already been given. As a rule, no change should be included in an estimate for which treasury sanction has not already been obtained. (Sel. Com. on Est. 1912, p. 135, No. 2.) The estimates should reach the treasury by December 1. If they are not in by January 13, the treasury will make its own estimate for the department and present it to Parliament. (Higgs, 2.) In case of the small departments the preparation of the estimates is fairly simple, but in a great department, such as the inland revenue department, subsidiary estimates must be obtained from several subheads or branches of the department by the accounting officer.

Treasury examination.—When these estimates reach the treasury they are examined by the estimates clerk of the treasury, assisted by one of the junior clerks.

Junior clerk.—The junior clerk goes through all the figures of the estimates, noting on the margin the increase or decrease on every item which shows a difference from the preceding year. All variations of this kind, as well as all changes in the amount of monetary provision which are not the automatic results of the operation of progressive scales of pay, are then compared with the record of the treasury sanctions relating to the estimates which have been given since the previous year's estimate was framed.

Alterations in estimates.—For this purpose the estimates clerk keeps on file all decisions of the treasury board which entail alterations in the estimates. Every such change must be here recorded or otherwise satisfactorily explained by the department. (Rep. Sel. Com. on Est. 1912, Q 15ff; Rep. Sel. Com. on Nat. Exp. 1902, p. 192.)

Estimates clerk.—The estimates clerk of the treasury examines the estimate as regards any discrepancy on the above points, and also considers the whole estimate in the light of past expenditures. If the estimates clerk is in doubt as to the effect proposed to be given to any treasury sanction, he refers the estimate to the principal clerk in charge of the treasury division which deals with the department of the government concerned. That officer is also consulted as to any new proposals referred to in the estimate, and even in the absence of such special reason, he has usually the opportunity to advise upon any important estimates relating to the department with which he deals. The work of the principal clerk does not, however, begin with the formal presentation of the estimates to the treasury. He is supervising the financial affairs of the departmentof the civil service under him all the year round. He is consulted as to any new charges and advises the department in the interest of economy and efficiency. (Rep. Sel. Com. on Est. 1912, Q 134–141 and Q 182.)

Financial secretary.—The estimate next goes to the financial secretary to the treasury. He directs action to be taken upon any of the points submitted to him by his subordinates. He also considers the estimate in its general bearing on matters both of policy and administration. He decides whether the estimate, or what criticism and suggestions for its amendment shall be offered to

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the department submitting the estimate. In the latter event, subsequent correspondence may elicit explanations from the department which will justify the treasury in approving the estimate or a compromise may be effected. Should agreement not be reached it would be open to the treasury, in the last resort, in the exercise of its responsibility, to present the estimate to parliament in the form approved by the treasury. It must be borne in mind here that the cabinet has already approved the general plan of the estimates and settled matters of policy.

Disagreements.—The disagreement here mentioned refers to matters of administration of more or less importance. Disagreements on matters of great importance may be carried successively before the chancellor of the exchequer, the prime minister, and the cabinet until a settlement is reached.

The procedure for the preparation of the estimate for Class I—public works and buildings—varies a little from that of the other departments. In response to the estimate circular sent out in October, a preliminary draft estimate is presented to the treasury about the end of December. This goes, semiofficially, to the principal clerk for that division, who, after study, submits it to the financial secretary. After going over it, item by item, with the principal clerk, he holds a conference with the first commissioner of public works (for Great Britain) and with the commissioner of public works for Ireland. As a result an agreement is reached on all of the proposed items. The estimate is then submitted in regular form. (Rep. Sel. Com. on Est. 1912, Q. 208–210; Higgs 4.)

Having passed through all the stages during the several months following October the estimates are sent to the printer, who usually has to develop considerable speed to get them out in time to be presented to Parliament soon after the opening session, about the beginning of February.

ARMY AND NAVY ESTIMATES.

Treasury control.—The procedure as regards the preparation of the estimates of the army and navy are somewhat different from that of the civil service and revenue departments. Treasury control is less direct and not so pervasive. These two great departments, the expenditure of funds for the operation of which involves so much of Government policy and such a large degree of technical knowledge, naturally renders them independent of the form of control which the treasury exercises over the civil departments. It is not possible to have in the treasury officials who can intelligently criticize the estimates based upon the work of army engineers, on new developments in military tactics, or on naval strategy and construction. Nevertheless, the chancellor of the exchequer must have the money before it can be spent, and this fact alone makes necessary a very active and efficient cooperation between these departments and the treasury in matters of finance.

The total amounts to be expended in the fighting branches of the service depends upon the policy of the Government of the day. This policy is influenced and determined by the work of the committee of imperial defense, a purely advisory body made up of the chief members of the cabinet and several high officers of the army and the navy, the board of admiralty, the army council, and by the cabinet, which makes the final decision.[1]

Navy.—The navy, unlike the other principal departments of the Government, is not presided over by a secretary of state. This is due to the fact that the navy was originally presided over by a lord high admiral, which office has been in commission for about 200 years. The commissioners are officially designated "the lords of the admiralty," but are usually spoken of as the "board of admiralty." The board consists of the first lord, a member of the cabinet with general powers; four sea lords, having direction over the fleet organization, personnel, matériel, stores, and transport, respectively; two civil lords, having direction over works, buildings, etc, contracts and dockyard business, respectively; a parliamentary secretary, who has general supervision over finance; and the permanent secretary to the admiralty, who acts as the mouthpiece of the board, but, being in the permanent civil service, he takes no part in the deliberation on policy. Further details of organization will be taken up as the financial program is discussed.

[1] For a detailed and comprehensive review of army and navy finances see the minutes of evidence of the select committee on national expenditure, 1902; the select committee on estimates, 1912, 1913, 1914; and the committee of public accounts of recent dates. The select committee on estimates for 1913 and 1914 deal entirely with admiralty and war office finance, some 10,000 questions being asked the various officials who were witnesses.

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Financial organization.—The procedure as regards the preparation of the Navy estimates is regulated by an order of the board of the admiralty dated September 27, 1912, superseding the previous office memoranda of December 10, 1885, September 20, 1888, January 9, 1889, January 29, 1892, and October 19, 1904, and revising to a considerable extent the financial regulations. One of the more prominent features of this revision was the creation of the finance committee constituted as follows: The parliamentary and financial secretary to the admiralty, as president; the additional civil lord; the secretary or assistant secretary of the admiralty; the accountant general; and the assistant secretary for finance duties; with whom may be associated additional members of the board for special inquiries from time to time.

The purpose of this committee is to insure a more careful scrutiny of the estimates and of the spending of the money. It works in behalf of the board of admiralty to which it reports. Concerning policy it has nothing to do, its object being economy and administration efficiency. It has no administrative functions itself but acts only in an advisory capacity.

Accountant general.—The accountant general, a permanent officer, is the chief administrative finance officer, his immediate superior being the parliamentary and financial secretary, a political officer. He is responsible for the preparation of the Navy estimates in general. He is also at the head of the accounting department of the Admiralty. A large part of the information necessary to the preparation of the estimates is thus available to him in his own office. The items for the more technical branches of the service are furnished him by the proper person, for example, as regards vote 6. Scientific Services he prepares the items for the salaries but the items for the expenses of the making of charts, etc., are furnished him by the hydrographer, and those for the observatories, the Nautical Almanac Office, and the Naval Museum are rendered by those offices.

The accountant general sees that the estimates conform in detail to the authorized forms and that no items are included upon authority. He is also responsible for seeing that all expenditures in the Navy correctly conform to the grants by Parliament, that is to the estimates as finally ratified. He brings to the notice of the parliamentary and financial secretary any irregularity in the accounts. In sum, the accountant general is the permanent civil service official who is responsible to the admiralty board for the detailed administration of the navy finances. He is the person also with whom the treasury, in behalf of the executive government, and the comptroller and auditor general, in behalf of Parliament, deal in the matter of administrative financial control.

Procedure—We shall now pass to an outline description of the method of the preparation of the estimates. The fiscal year begins April 1. Decisions as to naval policy are being made from time to time and by November the cabinet has decided on the shipbuilding program, personnel of the fleet, beginning of new works, changes in rates of pay and such other things as would cause a variation in the estimates from those of the current year. With these facts in hand as a basis for action, the board now begins to prepare the estimates to include this program, to take effect beginning with the next April.

The first step is the preparation of what are called "sketch" estimates for all of the branches of the naval service. These are prepared in the several departments under the immediate direction of the accountant general who acts at the instance of the financial secretary and the first lord. The purpose of these "sketch" estimates is to fix a provisional total for the board for presentation to the cabinet and to lay the basis for the final estimates. The preparation of the latter follows the same source as for the "sketch" estimates such changes and adjustments being made according to the decision of the cabinet and such other contingencies as may arise.

It must be borne in mind that no new item can be put in the estimates without approval of the treasury. This sanction is obtained from time to time throughout the year so that by the middle of the fall practically all these points have been settled. Where the new item involves a question of policy, such as new ships or an increase in the personnel, treasury sanction is formal only. The purpose of this control by the treasury is to insure economy in the matter of administrative detail from the standpoint of the budget as a whole; from its experience in the other branches of the service it is often able to show that the service can be had for less money than is called for in the item. To this end the treasury is often represented by one of its experts on the committees of the admiralty or the war office which are considering new works.

The "sketch" estimates are usually ordered to be handed in about the 15th of November. In their preparation a great deal of communication and con-

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sultation goes on in an informal way amongst the officials. The exact course to be followed is laid out in detail for each of the 15 "votes" by the statement appended to the office memorandum of 1912 above mentioned. In every case the accountant general is held primarily responsible for the nontechnical items. Each "vote" as soon as prepared must be submitted to certain designated members of the admiralty board for their approval. They see that the estimates properly carry out the policy decided on. Some of the larger and more important "votes" are in this way submitted to the entire board.

Specimen "vote."—To take a concrete example, vote 9, naval armaments, now the third largest "vote," is prepared as follows, treasury sanction having been obtained for all new items: The accountant general prepares the items relating to salaries, police, wages of naval men, extra pay, rents, medical attendants, and contingencies. The director of works furnishes the items relating to gas and water; and the director of dockyards the items for electric lighting. The director of naval ordnance prepares the remaining items, viz: Wages of artificers, wages of crews of naval ordnance vessels, guns, projectiles and ammunition, torpedoes, small arms, etc. The whole vote is then put in shape by the accountant general and concurred in by the director of naval ordnance. It is then submitted to the finance committee which gives it careful scrutiny, after which it is submitted for final approval to the following members of the board of the admiralty: Fourth sea lord, third sea lord, first sea lord, additional civil lord, civil lord, financial secretary, and first lord. Some of the lesser "votes" are submitted to only three members of the board.

A similar process is followed in the preparation of the "sketch" estimates for each of the 15 "votes." The work of the finance committee is very important in seeing that the estimates are regular and contain no unauthorized or unsanctioned items before submission to the members of the board. This committee held 19 meetings over the "sketch" estimates in 1912.

The "sketch" estimates next got to the first lord of the admiralty. He is now able to see how much money the naval policy agreed upon by the cabinet will cost. Upon this basis he draws up his final proposals and in behalf of the board he first privately lays them before his colleague, the chancellor of the exchequer, and afterwards before the whole cabinet for sanction of the program and of the grand total of these estimates. When the cabinet approves the total, the first lord goes back and directs that the final and formal estimates be drawn up. These follow the same procedure as do the "sketch" estimates. Certain shifts and adjustments may have to be made, due to later departmental information as, for example, an increased cost of building material. Upon being approved by the board the final estimates go to the treasury in December for formal approval. It will be remembered that treasury sanction has already been obtained for all new items and all variations from the preceding year. The first lord of the admiralty submits the navy estimates to the House of Commons and pilots them through to final ratification.

Internal control.—Each department of the navy is held responsible to the board for its own expenditures. This is a matter of internal departmental control in which little or no discretion is allowed, the object being to adhere as strictly as possible to the letter of the ratified estimates. The accountant general is referred to on all questionable matters, such as the necessity of occasional shifts of items, or an expenditure not provided for in the estimates. It is his duty to see that the naval expenditures as a whole do not exceed the estimates and that the internal department control is effective. To this end the spending departments are required to send in to him each month from June to March a statement showing "(1) the amount of all liabilities incurred, (2) the liabilities expected to mature in the current financial year, and (3) the anticipated variations between estimated expenditure and parliamentary grants." (Sel. Com. on Est., 1913, p. 245.)

On the basis of these statements the accountant general renders a financial statement to the board for the months indicated for the navy as a whole. These statements are considered by the finance committee and a report thereupon made to the board. This completes the cycle from proposed expenditures to complete internal review of the expenditures made.

The chief instrumentality of internal administrative financial control is the finance committee, which in addition to assisting and advising the parliamentary and financial secretary (as finance member of the board), examining proposals for new expenditures, etc., also reviews in rotation, not more than once in three years, the expenditures of each of the departments and reports thereupon to the board.

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As to the general administrative control a principal clerk of the treasury deals with the accountant general who acts as the accounting officer for all of the naval "votes."

The army.—The army is administered and controlled by the army council. It was created by patent February 6, 1914, and the present procedure is based upon the administrative reorganization made about that time. It is composed of seven members, four military and three civil. One of the civil members is the secretary of state for war, who is president of the army council and who is responsible to the executive government and to Parliament for all of its business. He is of course a member of the cabinet and of Parliament. The other members of the council have powers and duties as army councilors, but also have special functions as superintendents of the several branches into which the war office is divided. The chief of the imperial staff, the first military member, has the direction and control over the general staff of the army; the adjutant general, the second military member deals with personnel and discipline; the quartermaster general, the third military member, with supplies, transports, and remounts; the master general of the ordnance with armament and works. The three civil members are the secretary of state for war; the financial secretary, who is a head of the war-office finances and also member of Parliament; and the parliamentary undersecretary of state, who is the civil member of the army council; he deals with the noneffective "votes" and such other business as may be assigned to him.

The army council stands in much the same relation that the board of the admiralty does to financial policy as determined by the general military policy except that the secretary of state for war is in a more commanding position than the first lord of the admiralty.

Organization.—For the purpose of financial administration there is a central finance department in the war office under the supervision of the financial secretary. The assistant financial secretary to the war office, a permanent civil service official, works immediateley under the financial secretary and is responsible for the details of financial administration. He occupies a somewhat similar position to that of accountant general of the navy, being the highest financial officer in the permanent service of the war office.

In each of the departments of the military members of the army council there is a finance branch working side by side with the administrative branch. It is an outlying branch of the central finance department and is in constant communication with it. These branch offices keep a careful watch over all the operations in the departments with a view of noting every movement which may have a financial effect. They also keep a close watch over the current expenditures. They exercise the functions of review and control similar to that of the office of the accountant general of the navy in the departments there.

Each of these branches is under the order of the army councillor of the department concerned. It is in close consultation with him and with his subordinates. He seeks its advice and assistance on financial questions. It is also in direct communication with the central financial organization. When a matter comes up that can not be readily settled by the military member the branch refers it to the central organization, where it is dealt with under the direction of the finance member.

Procedure.—The procedure in estimating the expenditures of the army follows in outline that of the navy. The administrative organization is different, but there is a close similarity of method. Proceeding from the policy fixed by the cabinet—that is to say, the number of officers and men, rate of pay, equipment, operations, new works, etc.—the secretary of state for war proceeds to estimate provisionally what such a program will cost. He keeps in touch with the finances all during the year and is at all times cognizant of the status of proposed expenditures.

As with the admiralty, the estimates are not prepared *de novo*, but are based upon the results of consultations, discussions, and agreements made during the year which will cause the changes from the grants of the previous year. Treasury sanction is obtained for these new departures and changes from time to time as the occasion arises. Early in November the financial secretary begins to get together draft estimates, somewhat similar to, though by a less formal method than is prescribed for the "sketch" estimates of the admiralty. He calls upon the members of the army council for draft estimates for the "votes" administered by them, setting the date for the return towards the end of November. The finance branches, under the supervision and direction of the respective councillors, prepare the detailed items of the estimates, and transmit

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them to the central financial organization, where they are subjected to a close examination by the financial secretary and his assistants.

After this preliminary examination the financial secretary arranges for a separate conference with each of the councillors and his directors. The assistant financial secretary, who is the chief advisor of the financial secretary, is also a party to these conferences. They meet and go over the draft estimates, item by item, making shifts here and there, leaving out some and inserting others, until an agreement is reached as to the proper distribution of the provisional total arrived at. This sifting process may require a great deal of debate. In case of a disagreement on a question of serious import or general interest, appeal may be had to the secretary of state for war, who would either decide the matter himself or submit it to the full army council.

At the same time that the draft estimates are being prepared the secretary of state, being already aware of the provisional total cost of the policy agreed for he army, has the usual consultations and conferences with the chancellor of the exchequer and the cabinet and thus gains the formal sanction for the total amount of the army expenditures. This total is communicated to the financial secretary, who has it in hand during the final stages of the examination of draft estimates.

A full meeting of the army council is now called and the chief of the imperial staff presides. The secretary of state appears and delivers a "short allocution and exhortation on policy generally" and leaves. (Sel. Com. on est., 1914, Q. 6.) The council then proceeds to fix the priority of the various proposed new services and the relative urgency of various other items in the estimates. The assistant financial secretary shows the council exactly what the cost of the necessary bedrock needs of the army will be—that is to say, the necessary things that have to be carried on, such as the pay of the men, food, clothing, etc. The money that is left is then apportioned by the council to the new services. Each separate "vote" is thus settled so that the totals make up exactly the total amount allowed by the cabinet for the army as a whole. The council works upon the basis of the draft estimates and the total amount which the war office may spend for th ecoming year. The estimates are now drawn up in final form and sent to the treasury in the ordinary course.

A principal clerk of the treasury receives both the army and navy estimates, has them checked up under his supervision to see that they contain no new services not already sanctioned by the treasury during the year, and finally gives the whole estimates the final sanction of the treasury. (Rep. Sel. Com. on Est., 1912, Q. 24 and 56.)

Estimates of revenues.—When the chancellor of the exchequer presents the budget to the House of Commons he includes in the financial statement, giving estimated expediture, an estimate also of the revenues for the coming year. For the information upon which this latter is based he is dependent upon the permanent officials and experts in the treasury and on the revenue departments which are subordinate to the treasury. These latter furnish to the treasury data from which they compute the estimates, and forecast what losses or gains will occur from proposed changes in taxation. (Redlich, III, 125.) Long years of experience has made it possible for the treasury experts to estimate the coming year's receipts with great accuracy in ordinary times of peace. The chancellor of the exchequer also watches trade conditions of the world at the board of trade and consults in person a very large number of business men in all the leading centers of industry as to the trade prospects for the coming year. (See 62 H. C. Debs, 5, s. 58.)

Chapter IV. Ratification.

1. General principles:
   - a. The Crown—
     - (1) Initiative.
     - (2) Responsibility.
   - b. House of Commons—
     - (1) May not increase expenditure or revenue.
     - (2) Complete supervision—
       - (a) Over estimates.
       - (b) Over taxation.
       - (c) Consolidated fund charges.

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2. Method of procedure:
    a. Speech from the throne.
    b. Committee of supply and of ways and means.
    c. General debate.
3. Procedure in committee of supply:
    a. Standing order.
        (1) Allotted days.
        (2) The "guillotine."
    b. Relevancy of debate—
        (1) General debate on army and on navy estimates, "vote" 1.
    c. Functions of parliamentary heads—
        (1) Explanation of estimates.
        (2) Defense of department.
    d. Resolutions to the house.
4. Committee on ways and means:
    a. Functions—
        (1) Authorization of expenditure.
        (2) Raising of revenue.
    b. Resolution of house.
5. Appropriation bill:
    a. General debate.
    b. Late passage.
6. Supplementary estimates.
7. Votes on account:
    a. Civil services.
    b. Army and navy.
8. Consolidated fund bills.
9. Committee of ways and means:
    a. Raising of revenue—
        (1) Executive initiative.
        (2) Parliamentary control.
    b. "Budget speech"—
        (1) Financial statement.
        (2) Functions of the "speech."
        (3) Resolutions.
    c. Debate.
10. Finance bill:
    a. General debate.
    b. Early passage.

GENERAL PRINCIPLES.

The Crown.—The initiative with respect to the expenditure of public money and of the raising of public revenue lies, as has been seen, with the Crown; i. e., the ministry of the government of the day. The "executive power is charged with the management of all payments for the public service." (May, 545.) No petition relating to these subjects will be proceeded upon in the House of Commons unless recommended by the Crown. (S. O., 66.)

Demand for supply.—The formal demand of the Crown for money for the supply of the Government takes the form of the "speech from the throne" when the King calls the attention of the Commons to the estimates which will shortly be laid before them. (May, 454; Redlich, III, 133.) Any changes in taxes or duties are recommended when the chancellor of the exchequer makes his "budget speech" to the House later in the season. (May, 588.) The House may not increase any of the estimates or increase any tax or duty upon the motion of a private member. (May, 563–565; Anson, I, 271.) It may reduce any item of the estimates or of taxation or duties, but the House practically never exercises this power except on motion of the Government, and that is rarely done. (Lowell, I, 282.)

House of Commons.—Although the House of Commons has divested itself of all power of initiative in respect of public money for the purpose of fixing definite responsibility for the budget on the government of the city, it has supreme control over the granting of all money to run the Government and over the imposition of all taxes and duties.

No power of initiative.—No money can be paid out of the consolidated fund without the express grant of Parliament. Since the Parliament act of 1911 the assent of the Lords is merely formal, and they have no power of amend-

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ment. Should they refuse to assent to a money bill it would become a law by act of the Commons alone. (1 and 2 Geo. I, ch. 13, sec. 1.)

Committee of the whole.—Another fundamental principle is found in a standing order, first adopted in 1707, which lays down the rule that the House will not proceed on any money bill except in committee of the whole House. (S. O., 76; Redlich, III, 124; Anson, I, 273.)

Consolidated fund.—A fact to be remembered in connection with the ratification of the budget is that the permanent charges upon the consolidated fund are fixed by statutes. They do not have to come up for annual discussion before the House, although the amount expended each year appears in the budget statement of the chancellor of the exchequer. The charges amount to from 15 per cent to 20 per cent of the total annual expenditure in normal years. (Redlich, III, 129; Higgs, 20.)

Method of procedure.—The financial procedure of the House of Commons begins with the King's speech upon the opening of Parliament (Anson, I, 273; Redlich, III, 133), in which he addresses the House exclusively in the following formula:

King's speech.—"Gentlemen of the House of Commons: The estimates for the service of the coming year will be laid before you in due course." (H. C. Deb., 1914, Vol. LVIII.) So far as the expenditure side of the budget is concerned, this is the demand of the Crown for supply.

Committees of supply and ways and means.—As soon as the address in answer to the King's speech has been agreed to, which follows after several days' debate, the House appoints the two committees for the consideration of finance—the committee on supply and the committee on ways and means. (S. O. 140.) They remain open until the entire budget is disposed of in Parliament, which usually extends to the close of the session. (Redlich, III, 135.) Each of these committees is a committee of the whole House. They meet regularly by fixed rule on Monday, Wednesday, and Thursday, but their meetings are by no means limited to those days. (S. O. 16.) The functions of these two committees are very definitely determined by custom. On Thursdays the discussion of the estimates in committee of supply is always the first order of the day. (Anson, I, 274; Redlich, III, 135; S. O. 15, 1.)

Committee of supply.—The committee of supply supervises all expenditures for the current year, except that wihch is permanently charged upon the consolidated fund. Every other demand for money to run the Government, usually included in supply for army, navy, and civil services are here considered and passed upon. The powers of the committee are limited to these functions. (Redlich, III, 272.)

Procedure.—The estimates for supply services should be presented within 10 days after the opening of the committee of supply. (May, 546.) This is done by the financial secretary of the treasury. The army and navy are usually presented before the civil service and revenue estimates, by their respective ministers. Twenty days are usually allotted for debate on the estimates, including votes on account, being days before the 5th of August. (S. O. 15, 2.) This time limit does not include supplementary estimates, votes of credit, or other extraordinary demands for supply. (S. O. 15, 3.)

Time limit on debate.—Additional time, not exceeding 3 days, may be added to the above-mentioned 20 days. (S. O. 15, 4.) This time is apportioned throughout the session of Parliament according to the plans of the cabinet.

The "guillotine."—At 10 o'clock, on the last day but one of the allotted days, the chairman of the committee must forthwith put the question with respect to all outstanding estimates before the committee but not yet considered. (S. O. 15, 7.) At 10 o'clock on the last day the speaker shall forthwith put every question necessary to dispose of all the resolutions for supply before the House. (S. O. 15, 8.) This is known as the "guillotine." Large amounts of money are thus annually appropriated which have never been discussed or considered by the House or by the committee. (Anson, I, 275.)

General debate.—In order for the House to resolve itself into the committee of supply a motion is made "that Mr. Speaker do now leave the chair." An amendment to this motion affords opportunity for general debate on the estimates to be considered by the committee. This occasion occurs once each for the army, the navy, and the civil-service estimates. After the first motion upon the introduction of an estimate the speaker automatically leaves the chair on the allotted days. (S. O. 17.)

The rules of debate in the committee are the rules govering the sittings of the House as a committee of the whole. (Redlich, III, 138.) There is no opportunity for general debate in the committee except upon the first "vote"

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of the army and of the navy estimates, providing for the number of men and their pay and for the fleet. This is the general usage as the minister in charge of the army and navy estimates makes his general statement concerning the service before the committee rather than on the floor of the House. (May, 620.) Otherwise debate in the committee must be relevant to the particular item under consideration.

Parliamentary heads.—On the floor of the committee and of the House each "vote" of the civil service and revenue estimates is looked after by the Parliamentary head of the department concerned. The principal officers of State, 21 in the cabinet and about 40 not in the cabinet, are present to urge reforms, to explain and defend matters of administration and policy, and in general to have a voice in whatever concerns their particular branch of the government in the committee. For example, the postmaster-general explains and defends the estimates for the post office, the president of the board of agriculture champions all agricultural schemes for expenditure, and so on. (62 H. C. Deb., 5, s. 3.)

When a particular item is called up for debate the minister representing that department has beside him on the treasury bench a box of papers and documents relating to the administration of his department. This is for the purpose of enabling him to answer the questions of the opposition. But since he does not know what surprises may be sprung and not being able to know all of the details of the workings of his department, he has seated near by, on the bench behind the Speakers' chair, one or two of the permanent officials of his office to assist him in case of need. Thus it often happens that when some unexpected subject is brought up the minister may be seen to retire for a few minutes behind the Speaker's chair and return supplied with the information necessary. (McDonough, Control of the Public Purse, The Monthly Review, April, 1907, p. 32–33.)

There are a number of smaller departments having no ministerial head. The "votes" for these are in charge of the financial secretary to the treasury in addition to his general duty of piloting the whole civil service and revenue estimates through the committee. (Higgs, 81.) The army estimates are in charge of the secretary of state for war and the navy estimates and in charge of the first lord of the admiralty.

Debate in supply.—On each day allotted for supply one or more "votes" are not taken up in any regular order. The Government allows the opposition to choose the items of expenditure they desire to discuss on any allotted day.

If the "vote" under consideration is not disposed of at the close of the day, it may be taken up again by the committee or it may go over and be voted under the "guillotine" automatically on the last allotted day. (Higgs, 32; Anson I, 275.)

When once the House has resolved itself into committee of supply, the discussion of the estimates proceeds in an informal conversational way, members being at liberty to speak more than once to each question. The committee does not vote the "items" or the "subheads" but only the total "vote" for any given department.

Character of debate.—Strictly speaking there is no systematic and bona fide consideration of the estimates in the committee from a purely financial point of view. When an item is up for discussion the question whether that amount of money is needed for the purpose indicated receives scant attention if any at all. The opposition uses these opportunities for discussion of policy or criticism of the administration of the department for which the item provides. It is the private members' opportunity for criticsing or advocatng local reforms, for scoring this or that official for frugality, extravagance or inefficiency, and for airing whatever complaint, when the opportune item is up, he may have against the Government.

In a larger way the Army and Navy estimates bring up the whole question of military and naval policy and administration and those of the civil service give opportunity for the discussion of the great affairs of the State—colonial policy, foreign affairs, trade, and commerce. From the point of view of parliamentary control over the budget as such the debates may be considered haphazard and incomplete (Cf. Rep. Sel. Com. on Nat. Exp., 1902, p. 69), but in a broader way they furnish opportunity for the discussion of the great political principles which divide the parties. They are "the battle field where the great parties champion their respective causes, not only with reference to economic considerations, but also on grounds affecting national policy as a whole." (Redlich III, 136.)

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Supply resolutions.—In regard to the specific procedure in supply, each grant is placed before the committee by a resolution for the total amount of the "vote," in the following form. "That a sum, not exceeding ———, be granted to His Majesty to defray the charge which will come in course of payment during the year ending on the 31st of March, 19—, for" the object stated therein. (May, 613.) Debate begins by some member moving the reduction of the "vote" £100. For example, on March 18, 1913, when the civil service estimates, Class II, were before the committee, a member of the opposition moved as follows, which is the usual formula: "I move that item, Class II, vote 4 (Home Office) be reduced by £100." The committee then proceeded to discuss, until the close of the sitting that day, the question of forcible feeding of suffragettes and the release of convicted suffragettes under the "cat and mouse" plan. (Parl. Deb. Com., vol. 50, p. 86, 4ff.)

Relevancy of debate.—It must be borne in mind that there is no opportunity for general debate on the Civil Service estimate in the committee of supply. Discussion there must be relevant to the particular "vote" under consideration. (May, 621.)

At the close of each day's sitting the committee resolves "to report progress and ask leave to sit again." If the committee were closed it could only be reopened by royal message or a new speech from the throne asking for supply. (Anson I, 275.)

The committee of supply in actual practice accepts the estimates as presented unless some change is made on motion of the Government. After a vote sustaining the motion of the Government for supply on any "vote," the committee reports the resolutions of supply to the House, asking leave to sit again. (Anson I, 276.) The House receives the report and sets a future day for its second reading. The question is then put without allowing debate or amendment. Agreement with the committee usually follows as a matter of course. Disagreement on the merits would lead to a resignation of the ministry or a dissolution of Parliament. (Redlich, III, 142.) The resolutions thus adopted by the House mark an intermediate stage in the ratification of the budget.

Committee of ways and means.—The committee of ways and means is organized and operates according to rules similar to those of the committee of supply except that the reestablished usage of the House is followed in dealing with amendments rather than the usage of the committee of supply. (May, 624.) It is a committee of the whole house, sits on the same allotted days (S. O. 16) and reports its resolutions to the House in the same way.

Functions.—It has two distinct functions: (1) To vote money from the proceeds of taxation to cover grants in supply. This takes the form of resolutions authorizing the payment of money out of the consolidated fund. (2) To raise such portion of the public revenue as is necessary to meet the expenditure required for the service of the Government during the current financial year. (May, 624; Anson, I, 276; Redlich, III, 145.)

Resolutions in ways and means.—After the House has agreed to a resolution from the committee of supply it then resolves itself into a committee of ways and means. Resolutions are then passed authorizing drafts upon the consolidated fund to meet the grants voted in committee of supply. (Redlich, III, 147; May, 591.) These resolutions take the following form: "That, toward making good the supply granted to his Majesty for the services of the year ended on the 31st of March, 19—, the sum of ——— pounds be granted out of the consolidated fund of the United Kingdom." These resolutions are reported to the House and agreed to often without debate. (Redlich, III, 148.) They are adopted from time to time throughout the session as the House of Commons proceeds with the estimates.

Appropriation bill.—After all demands for money for the current year's supply have been disposed of in the two committees of supply and ways and means, which is near the close of the session, the committee of ways and means is charged by the House with the duty of bringing a bill called the appropriation bill. This bill sums up and ratifies all resolutions of expenditures and ends in the appropriation act which is the final stage of budgetary procedure in Parliament.

Debate.—The first and third readings of this bill are formal, but on the second reading it is customary to allow debate, the limitation being that the debate "must be confined to the conduct or action of hose who receive or administer the grants specified in the bill; legislation can not be discussed."

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(May, 594–595.) In practice this opens up the whole field of national policy and administration, foreign and domestic. (Cf. Redlich, III, 152.)

Supplementary estimates.—In theory the regular estimates are supposed to provide for all the current expenditures for a given year. In practice this has proved impossible. Some miscalculation in a department or some sudden or unforeseen demand render it necessary every year for some department to ask for additional funds to be made available before the close of the fiscal year ending March 31. This is done by the submission to Parliament on the part of the Treasury, through the financial secretary, of supplementary estimates in the form of the regular estimates asking in detail for the grants needed. Supplementary estimates for the Army and the Navy are submitted by their respective ministers. (Anson, I, 279; Lowell, I, 285.) Whenever excess grants are necessary they must be passed before April 1 also, and be incorporated in consolidated fund bill (No. 1).

Votes on account.—Furthermore it is the ideal of Parliament to finish up all budgetary legislation before the close of the fiscal year. This ideal is never realized, and April 1 comes around with the discussion of the estimates hardly begun. Since all accounts are closed March 31 and any unexpended sums in the hands of any department must be paid at that time back into the consolidated fund, the Government would be absolutely without funds after April 1 unless the need were met. This is done by asking early in the session for "votes on account." An estimate is presented, through the channel of the Treasury, showing the total amount required for each "vote" for the whole year and the amount required on account of each "vote." The amount required on account usually covers from three to five months.

Army and Navy.—No vote on account is ever taken for the fighting services. Early in the session, before the close of the fiscal year, the army and navy estimates are taken up and "vote 1" of each, providing for the land forces and for the fleet, are granted. The money so voted may be used for any other branch of the service until the full amount for all services has been provided. (Anson, I, 279; Higgs, 28.) The amount so voted is incorporated in consolidated fund act (No. 1).

Votes of credit.—Any sudden demand for money, such as unexpected military expenditure, are provided for by voting a round sum to the Government, to be applied to the special purpose. This is called a "vote of credit." (Redlich, III, 132.)

Summary.—To sum up, the expenditure side of the budget goes through the following stages before Parliament:

1. The King's speech calling formal attention of the House of Commons to the estimates for supply.
2. Organization of the committee of supply and the committee of ways and means.
3. Submission of the estimates for the army, navy, civil service, and revenue departments.
4. Submission of supplementary estimates.
5. Submission of estimates for votes on account.
6. Disposal of supplementary estimates and votes on account in supply and in ways and means.
7. Passage of a consolidated fund act before April 1.
8. Disposal of regular estimates in supply and in ways and means.
9. Passage of the appropriation act at the close of session.

Revenue.—The committee of ways and means exercises its function of providing revenue for the Crown simultaneously with but independent of its function of authorizing the payment of money out of the consolidated fund. But, as has been pointed out, the committee has no power of initiative. It can only grant the imposition of taxes or the levying of duties in response to a demand from the Crown. It may not increase any tax or duty, except upon motion of the Crown, although it has the power of decreasing them. This, however, is rarely done, as a responsible ministry leads and controls the committee.

Budget speech.—The demand from the Crown is made by the chancellor of the exchequer to the committee of ways and means in what is known as his "budget speech." The speech itself is popularly called the "budget," or the "opening of the budget" (May, 588; Redlich, III, 145), and is submitted as early after the close of the fiscal year as is possible, usually in April.

Financial statement.—At the same time a financial statement, or "white paper," is handed to the members, showing the proposed expenditure for the

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current year and the estimated revenues to meet these expenditures, as well as giving a summary of the financial proceedings of the previous year. Before being introduced into the House this "budget" is considered in a meeting of the cabinet, where it is explained by the chancellor of the exchequer. It comes, therefore, to the House with the stamp of official approval.

The "budget speech" is very elaborate and very important. "Budget night is the political high-water mark of the session." (Redlich, III, 144.) It reviews the economic life of the nation for the past year, explaining depressions or showing conditions of prosperity. It forecasts the prospects for trade and commerce for the coming year. The estimates for the current year are already before the House and the amount required for supply is thus known. In addition to these, the speech sets forth the consolidated fund charges (see Chap. I) and any new or additional charges not included in the estimates.

It has been seen that about three-fourths of the revenues come from permanent sources. They are provided for by statutes which are not changed except at rare intervals occasioned by some change in the national policy. The varying needs of annual supply are met by changing each year, if necessary, one direct tax which falls upon the wealthier class and one indirect tax which falls upon the masses. This takes the form of a change in the income tax and in the duty on tea. Some years they remain stationary, some years reduced, and some years increased. The duty on tea runs from July 1 and the income tax from April 6 in each year. (Higgs, 40.)

At the close of his speech the chancellor of the exchequer moves a resolution putting all or a portion of his program into effect. General discussion follows in which the financial policy of the government is well aired. (See 62 H. C. Deb., 5x, 94.) If the first resolution concerns the income tax, the tea-duty resolution follows upon its passage. (For a discussion of the "budget speech" see Redlich, III, 144–145; Lowell, I, 288–289; Anson, I, 277; Higgs, 37–42; May, 587–589. See H. C. Deb., 5s, 1914, 59–94, for a recent example of a "budget speech" and debate.)

Resolutions in ways and means.—These resolutions are passed in the committee of ways and means and are adopted by the house, as with the resolutions from the committee of supply. When they have all been adopted they are given legal validity by the introduction by the committee of ways and means of the finance bill, which includes all fiscal regulations relating both to the revenue and to the national debt. (Lowell, I, 288.)

Finance bill.—As with the appropriation bill, there is general debate upon the finance bill at its second reading, in which the whole financial policy of the government is again debated. The finance bill is passed early in the session. The later sessions of the committee of ways and means are occupied with resolutions from the committee of supply. (Redlich, III, 145.)

Provisional collection of taxes act.—In order to prevent importers or others from taking undue advantage of the interim between the adoption of the resolution and the passage of the finance act, it is necessary for the taxes and duties provided for in the resolutions to go into effect immediately. This was formerly done in practice by the revenue officials under orders from the treasury. (May, 589, note 3.) This custom was recently, in the decision of Bowles *v.* The Bank of England, declared illegal. The difficulty was met by the passage in 1913 of the provisional collection of taxes act (3 Geo., 56, 3) giving legal validity and effect to the resolutions for income taxes and customs and excise duties immediately upon their passage by the committee of ways and means, provided the chancellor of the exchequer states in his resolution the necessity for the procedure.

With the passage of the finance act, covering all provisions for revenue, and of the appropriations act, covering all provisions for expenditure, the second or ratification stage of the budget is brought to a close. The money may now be collected and spent.

CHAPTER V. EXECUTION.

1. Collection of revenue:
   - a. Revenue departments—
     - (1) Collecting officers.
     - (2) Method of deposit.
     - (3) Local expenses.
     - (4) Report.

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2. Expenditure of public money:
   a. Functionaries—
      (1) Treasury.
      (2) Comptroller and auditor general.
      (3) Bank of England.
      (4) Paymaster general.
      (5) Accounting officers.
   b. Consolidated-fund services—
      (1) Principles.
      (2) Method.
   c. Supply services—
      (1) Royal order.
      (2) Treasury requisition on comptroller and auditor general.
      (3) Grant of credit by comptroller and auditor general.
      (4) Order to bank.
      (5) Transfer to paymaster general.
      (6) Payment.
   d. Treasury-chest fund.
   e. Civil-contingencies fund.
3. Summary.

Collection of revenue.—The revenue of the United Kingdom is collected by four chief departments—the customs, under three commissioners; the post office, under the postmaster general; and the crown lands, under the three commissioners of woods and forests. Other departments may from time to time receive small amounts of money from fees, sale of old materials, and the like. These are classed as "miscellaneous." (Anson, II, Pt. II, 136–137; Higgs, 66–67.)

Collections.—The various collectors, receivers, postmasters, and agents receive the public moneys, which are payable either in the coin of the realm or in Bank of England or of Ireland notes. Post-office money orders and stamps may be taken for small amounts. The collections are sent in every day to the bank of England or of Ireland by means of bills of exchange. Each of the heads of the four revenue departments has an account at the bank, and all of their collections are entered here to their credit. From these accounts they are transferred to the exchequer account—that is to say, the consolidated fund—from which, as has been seen, no issue can be made without express grant of Parliament. (Report to the National Monetary Commission on the Fiscal Systems of the United States, England, France, and Germany, 1909, pp. 12–13, hereinafter cited as N. M. C., 1909.) The consolidated fund is a real bank balance, subject to the use of the bank according to the ordinary usage. (Anson, II, 149.)

Local expenses.—The collectors and receivers of revenue are allowed to cash out of the moneys received by them amounts necessary for local expenses each day. They may also, upon proper orders issued by authority, pay out cash for the local expenses of some other department of the Government, for example, the Army or the Navy. All of these payments are certified to the bank and the department is reimbursed from its suppy grant and the amount paid into the consolidated fund. This is all done, of course, on the books at the bank without any actual transfer of money, as is the case with nearly all of the Government transactions with the bank. (Philippovich-History of the Bank of England, 2 ed. Eng. re. Washington, 1911, p. 224.)

Reports.—Daily reports, weekly reports, and monthly reports are made by the collectors to the heads of their departments.

Miscellaneous collections.—The "miscellaneous" collections of revenue are handled by the Treasury and are paid directly into the exchequer account. (Anson II, 150.)

Expenditure.—It has been shown how each department makes its estimates for expenditure for the coming year and how this estimate is converted into an appropriation act through parliamentary sanction. It remains to be seen exactly how this act is put into effect so that the money will be spent for the purpose for which it was granted. How does the money find its way from the consolidated fund into the pockets of those who render the public service called for in parliamentary grants?

Supply services.—All grants for supply services are made by the Crown. According to British procedure it is therefore necessary for the Crown to authorize payment. This is done by a royal order issued to the Treasury authorizing them to authorize the Banks of England and Ireland to issue from the consolidated fund, from time to time, such amounts as may be needed to run

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the Government. This is the first step which sets in motion the disbursing machinery.

Royal order.—For the consolidated fund services no royal order is required as these sums are granted to the treasury by permanent statutes.

Treasury requisition.—After the royal order has been duly issued, the treasury makes a formal requisition on the comptroller and auditor general for the supply granted by Parliament authorizing and requiring him to grant a credit therefor on the exchequer account of the bank. The requisition states the amounts required at the Bank of England and the Bank of Ireland. (29 and 30 Vict., Ch. 39, sec. 15.)

Comptroller and auditor general.—The comptroller and auditor general grants this credit, provided he sees that it does not exceed the amount already granted by Parliament.

The comptroller and auditor general is an independent officer, appointed by the Crown, and draws his salary from the consolidated fund services the same as do the judges. He is appointed for life and is removable only by address of both houses of Parliament. He has two functions: (1) As comptroller his work is administrative or ministerial in character, dealing as it does with the issue of public money; (2) as auditor general his work is judicial, dealing with the expenditure of public money, detecting irregularities, waste, or fraud. (See Rept. Sel. Com. Nat. Exp. pp. 2–3, 230, and Q–1017; Anson II, 158.)

Accounting officers.—The credit having been granted to the Treasury on the consolidated fund at the bank, the money is now immediately available. In the actual paying out of the money the following method is pursued: The accounting officers to the departments having charge of all disbursements relating to their branch of the service (Higgs, 69) make demands from time to time on the paymaster general for such amounts as they immediately need. These demands are made on authorized forms specifying the particular service and the person to whom the amount is due. (N. M. C., 1909, p. 20.)

Paymaster general.—The paymaster general is a political officer, a member of the ministry without salary. Under him is the assistant paymaster general and several examiners. His offices are in the Bank of England and he fulfills the duties of banker for all the departments except the revenue departments. (Higgs, 66–67; Philippovich, 231.) Upon certain formal proceedings, which will presently be considered, the bank transfers to him from time to time all the money for supply services and he in turn gives it over to the departments upon their demand. He keeps a separate account for each department of the civil service.

Army and navy.—The army and the navy have their own finance departments, so that the paymaster general keeps only one account each for all of the "votes" of the army and the navy. (Higgs, 67.)

Revenue departments.—The revenue departments do not bank with the paymaster general. They each have accounts at the Banks of England and Ireland and upon these their accounting officers draw.

Requisition on treasury.—The paymaster general, in order to keep himself in funds to meet the demands for supply services from the various departments, applies daily to the treasury for a lump sum to cover the amounts needed. This takes the form of a written requisition stating the amounts needed and the services to be met. It is similar in form to the demand made on him by the departments. (Higgs, 69; Philippovich, 234; N. M. C., 1909, p. 20.)

Treasury order.—In response to the demands of the paymaster general the treasury, having obtained credit on the exchequer account at the bank from the comptroller and auditor general, by signed order directs the bank to make a transfer of the amounts designated from such credit to the "supply account" of the paymaster general. (N. M. C., 1909, p. 18.) This order is signed by one of the secretaries of the treasury.

In the case of the revenue departments which, as we have seen, do not bank with the paymaster general but have independent accounts at the bank, the treasury issues a similar order to the bank in favor of the head of the department concerned in response to a requisition from him.

After the bank acts on these orders they are transmitted to the comptroller and auditor general for record and account (N. M. C., 1909, p. 20; Anson II, 155), then to the paymaster who issues checks. The paymaster sends the checks and vouchers to the assistant paymaster, who enters them in a book

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under the respective votes. This book is inspected by the examiners the next day. (Philippovich, 235–6.)

Payment in detail.—"An advice of each payment thus authorized, with a receipt form appended, is sent to the person to whom the amount is due. This letter of advice and receipt must be presented entire to the office of the paymaster general, either by a person entitled to payment or by a banker or other authorized person." (N. M. C., 1909, p. 20.)

The paymaster general sends the vouchers back to the accounting officers. He also furnishes to each department a monthly statement showing the receipts and expenditures on its "vote." The accounting officer certifies the correctness of this account to the paymaster general. These certificates form the vouchers for the paymaster general's banking account. (N. M. C., 1909, p. 21.)

There are two funds under the control of the treasury which form exceptions to the general rule of the paying out of public moneys. These are the treasury chest fund and the civil contingencies fund.

Treasury chest fund.—The treasury chest fund must not be less than 700,000 pounds nor more than 1,000,000 pounds in amount. Its purpose is to meet temporary needs of the public or colonial service in places distant from London. (40 and 41 Vict., c. 45; 56 and 57 Vict., c. 18.) The army, the navy, or the civil service in Hongkong, for instance, may find itself forced by some sudden emergency to call for an immediate outlay of money not otherwise provided for. Application is made to the treasury chest fund, which is operated as a banking account.

Repayment.—All money paid out of this fund is repaid out of the money voted by Parliament to cover the services rendered. A yearly account is made by the treasury to the comptroller and auditor general, which account is later laid before Parliament by the treasury. (Anson, II, 158–159; Philippovich, 240; N. M. C., 1909, p. 22.)

Civil-contingencies fund.—The civil-contingencies fund is limited to £120,000 and is regulated by a treasury minute of May 13, 1862. It is under the direct control of the Treasury. The purpose is to meet unforeseen contingencies or advances in anticipation of parliamentary grants in the civil service at home. The payments made out of this fund are also temporary and are repaid the following year out of the regular parliamentary grant. An account of this fund is rendered by the treasury to the comptroller and auditor general, and later laid before Parliament. (Ibid.)

Summary.—The execution of the budget thus passes through the following stages in the order named:

1. The money is collected from the various sources of revenue and paid into the consolidated fund at the Bank of England and the Bank of Ireland.
2. A royal order is sent to the treasury giving notice that Parliament has voted certain moneys for supply.
3. No royal order is required for the consolidated-fund services, since they are not subject to annual grant.
4. The treasury makes requisition on the comptroller and auditor general for a credit at the bank for the money granted by Parliament.
5. The comptroller and auditor general grants the credit.
6. The departments demand money from the paymaster general to meet their needs.
7. The paymaster general makes request to the treasury to transfer to his account the sums asked for.
8. The treasury orders the bank to transfer such amounts from the exchequer account to the account of the paymaster general.
9. The paymaster general, acting as banker for all the civil-service departments, issues the checks to persons to whom money is due for public services rendered according to the parliamentary grant.
10. The revenue departments do not bank with the paymaster general, but have independent accounts at the bank. The usual treasury authority must be obtained for the transfer of any money from the exchequer account to their accounts.

CHAPTER VI. CONTROL.

1. Parliamentary control:
   - a. Over revenue—
     - (1) Ways and means.
     - (2) Reports to comptroller and auditor general.

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1. Parliamentary control—Continued.
   b. Over expenditure—
      (1) The estimates—
         (a) Committee of supply.
      (2) Payment—
         (a) Finance accounts.
         (b) Audit by comptroller and auditor general—
            i. Daily audit.
            ii. Appropriation account.
            iii. Report to House of Commons.
         (c) Select committee on estimates—
            i. Function.
            ii. Method.
         (d) Public accounts committee—
            i. Functions.
            ii. Method.
2. Treasury control:
   a. Over revenue—
      (1) Estimates.
      (2) Collections.
   b. Over expenditures—
      (1) Estimates—
         (a) Departmental.
         (b) New proposals.
         (c) In Parliament.
      (2) Issue of money.

General principles.—The exercise of control over the budget forms a most important element in budgetary procedure. The purpose of this control is, in the largest sense, to regulate and enforce governmental policy. In matters of administration, control over the budget insures legality of the collection and issue of public money and its expenditure in conformity with parliamentary grant; it prevents extravagance, hinders and detects fraud, and enforces economy and efficiency. (Philippovich, 249; Bastable, 759; Anson II, 156; Stourm, 533–534; Sel. Com. on Nat. Expenditure, 1903, p. iii.)

Parliamentary control.—As regards the British budget, control may be divided, for all practical purposes, into two general classes, viz: Parliamentary control and treasury control. Parliamentary control is exercised exclusively through the House of Commons, including its committees and its officers. It has had, since the Parliament act of 1911, complete control over all money bills.

Over revenue—In ways and means.—We have seen that no taxes or duties can be levied unless granted in the committee of ways and means. The whole governmental scheme for raising public money from whatever source must be submitted each year to the scrutiny of the house sitting in this committee of the whole. Here it is debated, attacked, defended and explained, and finally granted. This form of control is, as a matter of necessity, exercised chiefly along the lines of policy.

Through comptroller and auditor general.—The House exercises control over the collection of the revenue through the comptroller and auditor general. The Bank of England and the Bank of Ireland furnish to him each day an account of the exchequer receipts for the previous day. The revenue officers furnish also daily reports to him of the amounts turned over by them to the consolidated fund. In this way he is enabled to keep a check on all receipts of public money. He also, at the instance of the treasury, from time to time, examines the accounts of the revenue officers. (N. M. C., 1909, 14–15.)

Over expenditure.—Parliamentary control over the expenditure side of the budget is exercised over the estimates and over the actual payment of the money.

Current estimates.—The current estimates have already been followed through the House in committeee of supply. The control here is very clear and definite so far as it goes. No money can be spent for any governmental service out of the annual supply unless it has been specifically granted by Parliament for the very purpose for which it is actually spent. This general principle governs the entire scheme of annual expenditure. While the debates in supply do not and can not go into detailed discussions of the items of the estimates in regard to the specific sums of money asked for, yet, questions of economy and efficiency and the larger matters of policy are freely debated. This may be said to be a form of control, though less direct than the more formal methods. Thus

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there appears to be two forms of parliamentary control over the early stages of the expenditure side of the budget; direct control through the formal granting of the money to be spent, and a form of indirect control through discussion of matters of policy presented by the estimates.

Committee on estimates.—In 1902 a select committee on national expenditure was appointed to make inquiry into the question of the control of the House of Commons over the public expenditure. The testimony taken before this committee was published in 1902 and its final report made in 1903. With a view of increasing parliamentary control over the estimates, this committee strongly recommended the appointment of a committee whose function would be to scrutinize the estimates each year in the interest of the House. This report was not acted on until 1912, when a select committee on estimates was appointed. It was also appointed in 1913 and 1914, although it has not yet been made a standing committee.

Function.—The function of this committee is to take up some particular "vote" or "class" in the current estimates and examine it with a view of determining questions of economy and efficiency. It can not enter into questions of policy, as that is a matter resting solely with the ministry. Its function is inquiry, criticism, and suggestion. (Higgs, 36; Political Quarterly, Sept., 1914, 129–132.)

Report.—It has no effect on the form of the current estimates since it does not make its report until late in the session after nearly all of the estimates which they have been considering have been disposed of by vote of Parliament. It calls in and examines witnesses from the departments and elsewhere. It makes a report to the House. The recommendations in the report are considered by the treasury. If the treasury sees fit to give them effect—the treasury having, as we have seen, control over the departmental estimates—it does so by a minute which is laid before the committee at its first sitting the next session. In 1912 the committee investigated the estimates for the civil service, Class I, public works and buildings; in 1913, the navy, and in 1914, the army. (Parl. Papers, 1912, No. 277; 1913, No. 321; and 1914, No. 429.) This method of parliamentary control is given effect through its influence on the future estimates and financial administration of the departments investigated. The mere fact of the publicity and the thoroughness of the examination is, in itself, a strong control in the interest of economy and efficiency. (For specimen see Appendix No. 11.)

Control over payment.—When once Parliament has granted money on the estimates for supply there can be no change made in the grant by the department, nor can money be transferred from one subhead to another within the department. The House of Commons exercises control over payment to see that this principle is actually carried out in practice. This is done through the comptroller and auditor general, the public accounts committee and by reports from the treasury.

Finance accounts.—Pursuant to statute (17 and 18 Vict., ch. 94, sec. 2) the treasury is required to lay before Parliament each year, on or before June 20, an account of all exchequer receipts and issues in the preceding financial year. (Higgs, 43.) These are called the "Finance accounts of the United Kingdom." It is issued in the form of a small blue book of about 100 pages. It shows the sources and amounts of all revenue collected and paid into, and all issues out of, the consolidated fund. This includes a statement of the issues made for the consolidated fund services as well as for the supply service. (For specimen see Appendix No. 12.)

These accounts are based, not upon statements of the actual money spent by the department, but simply upon the amounts transferred to their accounts with the paymaster general. They show issue only. (Lowell, I, 289; Anson, II, 156; Sel. Com. Nat. Exp., 1902, p. 228.)

Comptroller and auditor general.—The chief control by the House of Commons over public expenditure is exercised through the comptroller and auditor general, who makes his report directly to the House. He is an officer of the House, although appointed by letters patent from the Crown. He receives a salary of 2,000 pounds a year, which is charged to the consolidated fund services and is not subject to annual grant. He is therefore independent both of the treasury and the House. The office was created by the exchequer and audit department acts, 1866, which prescribes his functions and duties. (29 and 30 Vict., ch. 39.)

There is an assistant comptroller and auditor general and a large clerical staff, some of whom have offices in the departments whose accounts they audit.

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Issue of money.—No money can be issued from the exchequer until the requisition therefor has passed through the hands of the comptroller and auditor general and he has satisfied himself that the issue is in accordance with parliamentary authority. (Sel. Com. Nat. Exp., 1902, Q. 889.)

Audit of accounts.—The money having been issued to the departments and spent, his next duty is to see that the expenditure was made in strict accordance with the legislative grant. He, therefore, on behalf of Parliament, makes an annual audit of the accounts of the civil service and revenue departments. As to the army and navy, he makes a test audit only of some particular branch each year. These have audit departments of their own.

Appropriation accounts.—The accounting officers of the different departments prepare and present to the comptroller and auditor general accounts of all expenditures in their respective departments for the fiscal year ending March 31. These are called appropriation accounts. Those for the civil services reach the comptroller and auditor general by November 30 and those of the army and navy by December 31. (Exch. and Aud. Dept. act, 1866, sec. 21.) However, this is not his first view of the accounts. Throughout the year, pari-passu with the cash transactions, his staff is carrying on the audit with full authority to call for vouchers, etc. (Ibid., sec. 28; Sel. Com. Nat. Exp., 1902, Q. 1125 and 1128.) His final report on the appropriation accounts must be made when Parliament meets in January or February.

Examination.—Report.—The comptroller and auditor general, through his staff, makes a detailed examination of each account for the purpose of determining whether the money has been spent in strict accordance with the parliamentary grant. He signs each account and makes memoranda at the bottom explaining any variation between grant and expenditure, and such other observations as he may see fit to make. These are bound up into three folio volumes, one for the civil services and one each for the army and the navy, with the report of the comptroller and auditor general. This report is addressed to Parliament, but it is sent to the treasurer, by whom it is presented to the House. Should the treasurer fail to present it, the comptroller and auditor general may do so on his own authority. (Higgs, 74.)

Beyond the mere fact of audit, one of the most important functions of the comptroller and auditor general is to call the attention of Parliament to any loss or waste in the use of public money, even though the accounts themselves do not disclose this fact. (Sel. Com. Nat. Exp., 1902, Q. 756. For a list of recent cases involving this procedure see Rep. Sel. Com. on Est., 1912, p. 137, Appendix 2.)

Other accounts.—In addition to the audit for the House of Commons, above described, the comptroller and auditor general, on behalf of the treasury, examines a number of other public accounts not directly connected with the supply services to see that treasury control has been carried out in due form. (Higgs, 77–78.)

Public accounts committee.—At the beginning of each session of Parliament the House of Commons appoints the public accounts committee. This is a standing committee, consisting of 11 members. (S. O. 75.) To them are referred the appropriation accounts and the report and comments of the comptroller and auditor general thereon. It is their duty to examine these with a view of enforcing the control of the House of Commons. It does not deal with questions of policy.

Sittings.—This committee has the power of calling for witnesses and papers. It calls in the accounting officers and submits them to rigid cross-examinations when their accounts are under question. (Sel. Com. Nat. Exp., 1902, Q. 1017.) For instance, the committee of 1913 held 12 sittings and examined about a hundred witnesses.

The comptroller and auditor general sits with the committee in an advisory capacity.

It is said that the departmental officials stand more in awe of public scrutiny of this committee than they do of the House of Commons itself. In this way, like the select committee on estimates, which is patterned after it, it exercises a very potent control over public expenditures. (Sel. Com. Nat. Exp., 1902, Q. 1017–1018.)

Report.—The public accounts committee makes two reports to the House each year, one about March and the other about June. The House does not, however, discuss these reports or consider them on the floor. The recommendations of the committee are carried out by treasury minutes directing the department in question to carry out the recommendations of the committee. "A

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serious discrepancy between the votes and the expenditure would no doubt be taken up by the opposition and dealt with by the House." (Anson, II, 157.)

Treasury control—Preliminary observations.—Before passing to the consideration of treasury control over the budget, it may be well to recall certain principles of the British constitution. There is no conflict between the treasury and Parliament over the matter of control. In a government with a more static division of its powers such a conflict might be expected. But here the ministry—the executive government of the day—controls both the treasury and Parliament. The control over public finances is in reality executive control exercised through two cooperative branches of the Government. The prime minister is not the only leader of the House. He is also first lord of the treasury. He is responsible to the people for the taxes that are levied and the money that is spent during his ministry. Therefore, when treasury control and parliamentary control are spoken of, it is with the understanding that these are but two hands of the government working together toward a common goal.

Control over revenue—Estimates.—The treasury estimates each year what revenue the Government will need for the coming year. This is done at the instance of the chancellor of the exchequer, after matters of policy have been settled by the cabinet. The treasury, in the very beginning of the budgetary processes, has its hands on the public purse, estimating for Parliament what should be put into it during ths fiscal year.

The revenue departments of the Government are themselves except the post office—under the control of the treasury. (Pol. Quar. Sept., 1914, p. 134; Higgs, p. 83.) They make reports to the treasury of their daily collections, as does the Bank of England and the Bank of Ireland of money paid in by these departments. All of the money collected is paid into one fund—the consolidated fund—at these banks. This facilitates treasury supervision and control, as the state of the public finances is always known. (Philippovich, 230.)

Control over expenditure army and navy.—Treasury control over expenditure of public money may be divided into two phases: (1) Departmental control under treasury supervision; and (2) direct control. In every case, exceptions must be made as to the army and the navy, which have their own finance departments responsible to their respective ministers, who are themselves cabinet ministers and responsible to Parliament. Treasury control, as regards these branches, though not impotent in a large way, is much less visible and direct.

Departmental control.—The accounting officers in the departments are treasury appointees. They are high officials, usually the permanent heads of the departments. They are under the control of the treasury, both as to the estimates they make for current expenditure and as to the money issued to them for disbursement, from time to time. The accounting officer is responsible to the treasury for the regularity of his expenditures. "If he has proposed to him to sanction any expenditure from the 'vote' which he thinks is not a proper charge to the 'vote,' either because it is contrary to the wishes of Parliament or to the treasury, it is his duty to offer objection. And if he is overruled by the (parliamentary) head of his department, it is then his duty to record his objection in writing." (Sel. Com. Nat. Exp., 1902, Q. 13.) He is then absolved from responsibility to the treasury.

The accounting officer is not, however, an official of the treasury. He is directly responsible to his superior officer in the department. Treasury control here is for the purpose of making departmental control in itself more effective.

Direct control.—Direct control of the treasury is exercised over the preparation of the annual estimate for supply to Parliament; over the course of the budget through its different parliamentary stages; and finally over the issue of the money to meet the purpose for which it was granted by Parliament.

As regards the first two stages of treasury control, it has already been seen how the treasury initiates the procedure for the preparation of the estimates, passes on all new proposals for expenditure, even of the army and navy, checks up at its offices the entire estimates for the coming year, and presents them, except the army and navy estimates, to Parliament.

On the floor of the House of Commons the chancellor of the exchequer, with the assistance of the financial secretary to the treasury, pilots the budget through to the passage of the appropriation act.

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Overissue.—After the money has been appropriated, none of it can be spent except upon requisition of the treasury to the Bank of England or of Ireland directing the transfer to the account of the paymaster general such amounts and for such purposes as are therein designated. This is control over issue merely—not over payment. The treasury sees that no money is issued except for a purpose already designated by Parliament. The responsibility for the spending, in a legal way, rests upon the department. The comptroller and auditor general is the only person who comes in after the issue to see whether there has been negligence, waste, loss, or fraud. (Sel. Com. Nat. Exp., 1902, Q. 466.)

Treasury control increases and becomes more efficient with treasury knowledge. To this end, the treasury is often represented on interdepartmental committees to consider proposals involving new expenditures. It is represented at the hearings of the select committee on estimates by a principal clerk and at the hearings of the public accounts committee by a principal clerk and by the financial secretary to the treasury.

The extent of treasury control over the budget will thus seem to be very powerful. Supplemented by the control of Parliament through the comptroller and auditor general and otherwise, the governmental control over the annual budget becomes complete.

Summary.—To summarize, parliamentary control is enforced:

1. Over revenue through the committee of ways and means, by authorizing the levying of taxes and duties, and by reports to the comptroller and auditor general, an officer of the House, of money collected day by day from the sources thus authorized.
2. Over expenditure in the committee of supply by granting the specific items asked by the Crown. No money can be spent without this grant.
3. Over expenditure through the select committee on estimates, which examines the estimates and reports as to economy and efficiency.
4. Over expenditure through the comptroller and auditor general, who examines the departmental appropriation accounts to see if the money has been spent according to specific parliamentary grant.
5. Over expenditure through the public accounts committee, which examines the appropriation accounts after their audit by the comptroller and auditor general.
6. Over expenditure through the treasury, which lays before the House each year the financial accounts of all receipts and issues of the United Kingdom for the fiscal year. On the expenditure side these accounts show the issue only of the money granted.

Treasury control is exercised:

1. Over revenue through the revenue departments, which are subordinate to the treasury. The estimates for taxes and duties are made by the treasury and the collections of revenue are made under its direct supervision.
2. Over expenditure through the accounting officers of the departments, who are appointed only with the approval of the treasury. They prepare the estimates under treasury supervision and act as disburging officers in the payment of the money granted.
3. Over expenditure by sanctioning all new expenditures and by checking up the entire estimates each year.
4. Over expenditure by piloting the estimates through the House of Commons through the chancellor of the exchequer and the financial secretary to the treasury.
5. Over expenditure through control over the issues from the consolidated fund, no money being transferred to the accounts of the departments at the bank without a requisition from the treasury for the specific amount.

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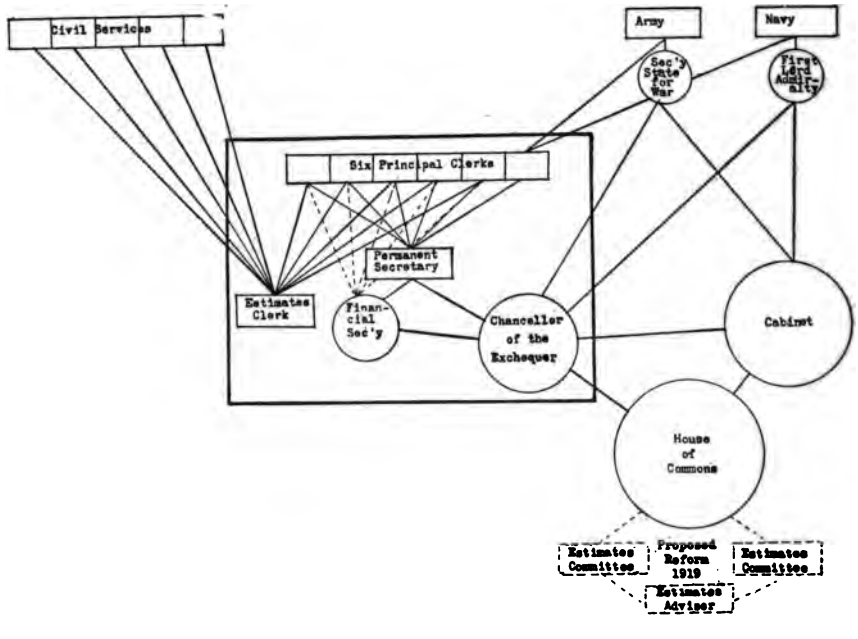

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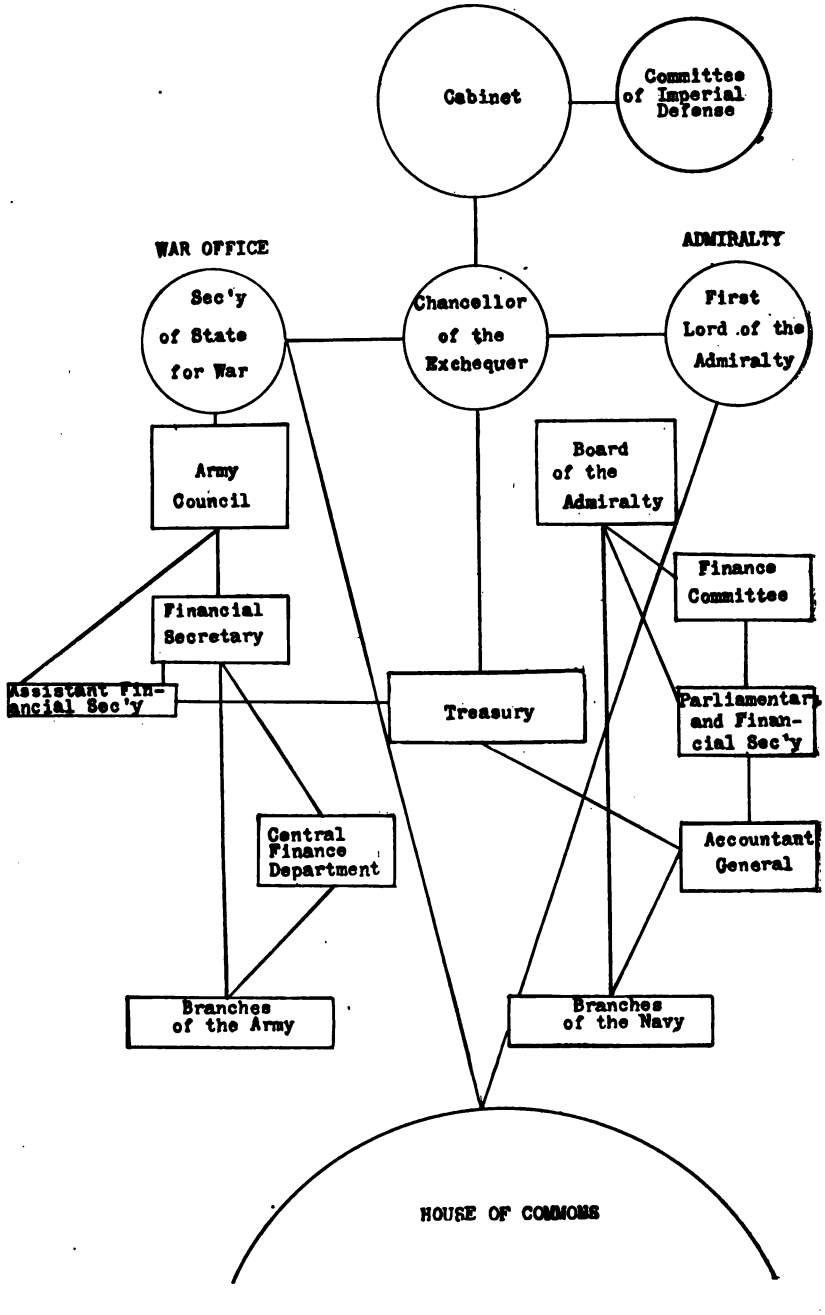
FINANCIAL ORGANIZATION OF THE WAR OFFICE AND THE ADMIRALTY OF GREAT BRITIAN PRIOR TO AUGUST, 1914.



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APPENDIX No. 1.

NOTES ON THE NINTH REPORT OF THE SELECT COMMITTEE ON NATIONAL EXPENDITURE, APPOINTED BY THE HOUSE OF COMMONS FEBRUARY 19, 1918.

The select committee on national expenditure, 1918, made its tenth and final report on November 13, 1918. The ninth report dealt with the problem of strengthening the control of the House of Commons over expenditure. It was generally admitted that this control was inadequate and in this view the committee concurred in their report.

While the control of the House of Commons over finance is theoretically absolute, it has never set up any machinery to make this control effective over the executive proposals as embodied in the annual estimates. The estimates committee which was set up in 1912, 1913, and 1914 proved ineffective because they they could not make an examination of the estimates and report on them before they were acted upon by the house. Their work could bear fruit only in the improvement of the next year's estimates. This committee "had no professional assistance at its command" comparable to that given the public accounts committee by the comptroller and auditor general.

At the conclusion of its introductory remarks in this report the select committee said: "We consider that the House of Commons, as the representative of the taxpayer, should reassert, fully and effectively, its right of restricting the amounts to be allotted for each head of national expenditure * * *."

The committee was unanimously of the opinion that the estimates should be subjected to committee examination and report. It recommended "that at the beginning of each session there should be appointed, by the customary procedure, two standing committees on estimates, each consisting of 15 members. After some experience of the working of these committees, it may be found desirable to add a third"; that the annual estimates should, "without special motion" be subject to examination, the allocation to the two committees being made by the chairman of the committee of the whole house on ways and means; and that the committees should be assisted by an officer of the House of Commons to be appointed for the purpose, with the title of examiner of estimates." His duty would be to collect from his own study of the estimates, from information obtained officially or semiofficially, from communications received from members of the house or from the public, facts which would indicate to the estimates committees useful lines of inquiry. He should stand in much the same relation to them as the comptroller and auditor general stands to the public accounts committee." Such a staff as he should need would be furnished by the house.

This recommendation marks a new departure in British practice. The estimates examiner gives to these committees what the former estimates committee lacked. The aim is to reduce the estimates where such reductions can be made in the interest of economical and efficient administration. The committees would have no authority to inquire into the merits of the estimates. They could not discuss or report upon any question of governmental policy as embodied in the estimate. They would also have no authority to recommend any increases in the estimates, the house itself having long ago foregone that power. In every case their recommendations for reductions are not to have any binding effect. Their province would be limited to inquiry and report.

In order that the reports of these committees may be given a bona fide consideration the committee recommended that the house should, as far as practicable, act upon the estimates only after they have been reported on, and that a definite period be allotted for this purpose; and that should a motion be carried to accept the recommendation of an estimates committee to reduce the amount of an estimate, the government of the day should not take the vote as implying that it no longer possessed the confidence of the house. Because of the prevailing rule that every adverse vote must be considered a want of confidence has made it impossible for the house to consider purely financial questions on their merits. "Under these conditions it is not surprising that there has not been a single instance in the last 25 years when the House of Commons, by its own direct action, has reduced, on financial grounds, any estimate submitted to it."

The select committee further recommended, "That it should be the duty of the chairman of an estimates committee, or of some other member nominated for the purpose, to be present in the house when the occasion was offered for the discussion of its recommendations, and to speak in their sup-

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port, and the duty of the minister in charge of the vote either to accept the recommendations or to give reasons for not doing so."

The select committee recommended also that the exchequer and audit departments act, 1866, be amended to provide that the comptroller and auditor general should report to the public accounts committee on any impropriety of expenditure as soon as it is discovered. According to the present practice the comptroller and auditor general makes a continuous audit, but he does not report until the accounts are closed; that is, once a year.

The select committee considered several other proposals and rejected them. Two of these are of special interest. One was that instead of two or more estimates committees there should be only one single committee with a larger membership, which should be divided into a number of subcommittees, each dealing with one department or group of departments.

The other was of greater importance and was submitted for discussion by the subcommittee which made the investigation which formed the basis of this ninth report of the select committee. In was in substance as follows: That a standing committee be appointed to be called "committee on estimates and accounts," to be composed of 26 members, the chairman of which would be a member of the opposition. This committee would replace the former estimates committee and the existing public accounts committee. It would divide itself into a number of subcommittees, each subcommittee dealing with one or more departments, and would consider (1) the estimates for the current year and (2) the latest available closed accounts.

"The committee would have the assistance of the comptroller and auditor general and his staff." He "would report to the committee from time to time any points arising out of his continuous audit to which he thought their attention should be directed, in advance of his general report on the closed accounts. Individual members of the house would be invited each session to draw the attention of the committee to matters in which they considered excessive expenditure was being incurred. The committee would have power to send for persons, papers, and records, and to report from time to time. It would not have power to recommend increases of expenditure."

Certain other elements in this proposal were accepted and made a part of the recommendation of the select committee as to the proposed committees on the estimates.

This proposal was rejected by the select committee on the grounds that such an amalgamation would introduce complications between the forces of the comptroller and auditor general and those of the treasury and the spending departments. The objection was urged by several high officials that to give the comptroller and auditor general this new function would endanger the independence of his audit; that is to say, he could not freely criticise the accounts after he had had a hand in the formulation of the estimates upon which they are based. It is of interest to note, however, that a considerable number of statesmen favored the adoption of this proposal and that it was espoused in the first instance by the subcommittee itself having charge of this investigation. The strong point in favor of this proposal is that it would connect up the accounts with the estimates in the hands of one committee which would have the assistance of an officer of the House of Commons in the person of the comptroller and auditor general and his staff. The information as to how previous expenditures were made would be before the committee when it considered the estimates for the same or similar expenditures for the coming year.

APPENDIX No. 2.

STATEMENT OF THE CHANCELLOR OF THE EXCHEQUER ON THE REORGANIZATION OF THE TREASURY.

The House will desire to know, and I think that this is the moment at which I should tell them, what we have done to secure control over finance and enforce reduction of expenditure. Let me begin with what may interest the House less, but what has not been an unprofitable part of our task—the organization which we have established for these purposes. I have told the House again and again in the course of the last 14 or 15 years that the treasury was understaffed for the work it had to do. I said more; I said it is not only understaffed, but owing to circumstances for which I blame nobody it was ill-organized. For

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years past it has had no single permanent head; the headship has been in commission. That is not a good system. By the common consent of all who have acted as joint permanent secretaries to the treasury, it is an unsatisfactory method or organization, and it has only worked as well as it has done because of the determination of those who held the offices to make it work, and because of the admirable personal relations which have happily always prevailed between them.

But it was bad organization, and the first thing the first lord of the treasury and I had to do was to reorganize the treasury. We have established it again under a single permanent head. That permanent head, as is recorded in his appointment, is recognized as the head of the civil service, and the adviser of the Prime Minister in matters of civil-service patronage and reward. For that office we have chosen Sir Warren Fisher, the very able chairman of the board of inland revenue. Under him we have appointed three controllers. One of the establishments as a new branch to control establishments, a very necessary duty. Another as director of finance. The third as a controller of administrative services. Under them I have enlarged, and I am going still further to enlarge the treasury staff. That is necessary if you want the work done. It would be bad economy for me to refuse Sir Warren Fisher, or for you to refuse me, the staff that is necessary to enable the Treasury to resume its long disused control, and to apply it effectively to our present position. Secondly the financial secretary to the treasury has summoned periodical meetings of the finance officers of the various departments. He is considering with them, in particular, methods for strengthening the hands of the financial officers within their own departments, and I hope we shall soon receive from him and them recommendations which the finance committee of the cabinet may be able to approve and carry into effect.

Finance committee of the cabinet.—The third organization is the finance committee of the cabinet. When the Government was rearranged after the general election, the prime minister, in asking me to accept the post of chancellor of the exchequer, informed me that it had been suggested to him, I think by my predecessor, that the creation of a cabinet finance committee might be of great assistance to the chancellor of the exchequer. I warmly welcomed the suggestion, and that committee was created. It assisted me in the preparation of the budget. It has assisted me by advice in some of the difficult questions with regard to currency and exchange with which I have had to deal, and it is the proper cabinet instrument for the careful survey of finance which is required, and is one of the first and most urgent needs in present circumstances. (Mr. Houston. Who are they?) It is not unusual to give the names of cabinet committees. In this case, however, I am willing to do so, but it must be clearly understood that it must not be recited as a precedent with which to reproach my colleagues on other occasions. These domestic arrangements are matters for ourselves, and are no more matters for public discussion than what passes in the cabinet itself. The members of the committee are the prime minister, as chairman; the lord privy seal, Lord Milner; and the president of the board of trade, and myself, and we call to our council other of our colleagues or such permanent officials whose services we require.

What has this finance committee done? Take first the question of staffs, not because they are the most important, but because they bulk unduly large in the public eye. It must be obvious that in respect of great machines like the army and the navy, demobilization of the administrative staff must follow, and can not precede, demobilization of the fighting forces. The mere work of demobilization is tremendous. Let me say in passing that every new bar accorded to a medal, and every new medal that is issued involves an amount of clerical work of which the House probably has no conception. Your staff must be what is required for the services you expect them to render. If there had been, for instance, no increase in the post office staff the reduction shown in the total staff would be very great. But I do not know one of the critics who pressed for economy and, more than that, for a reduction of staff, who did not speak as if that were compatible with, and to be accompanied by an increase in the facilities of the post office. If you must cut down staffs, you must reduce your services to a size appropriate to the size of the staff it is desired to maintain. On the other hand, if you insist upon maintaining or enlarging services you must give the ministers responsible the staffs necessary to execute these services.

Let me say with regard to the revenue department, as in regard to the treasury, I will not be responsible for a reduction of trained staff. I need more.

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I am losing revenue from want of trained men. It would be penny-wise and pound-foolish to grudge me an efficient and sufficient staff, who will pay for themselves many times over in the revenue which they will prevent from going to waste. The reductions in this last month of September after allowing for all these, are 8,000 men. Further reductions have already been promised, and some of them have already been indicated to the House in answers given by ministers. We have not come to an end by any means; the examination by the finance committee is not completed.

Much more remains to be done. But I want the House to realize the limits within which such reductions are possible. I think it is well to point out that if the whole of the organizations created for the war or during the war—which include the administration of soldiers' and sailors' pensions, food, shipping, munitions, unemployment donations, the training of ex-soldiers, and so on—could be swept away by a stroke of the pen, and if at the same time the staffs in all prewar departments, including the revenue department, which is now responsible for collecting a revenue four times as great as the prewar rate, could be brought back to prewar dimensions, the saving in money would not be more than £22,000,000. No one pretends that either of these two things can be done; nobody pretends that such an economy as £22,000,000 could be effected. The fact is that while waste of staff is very irritating and very inexcusable, it is the duty of every permanent head of each individual department to adopt, having regard to our national balance sheet, all possible economies.

(Quoted from the London Times, Oct. 30, 1919.)

The CHAIRMAN. The views of the Treasury Department on the establishment of a budget system were set forth by the Secretary, Hon. Carter Glass, in his annual report to Congress, pages 116 to 126, inclusive.

The reporter will insert these views in the record.

(The views referred to are here printed in full, as follows:)

A BUDGET SYSTEM.

For many years the question of a budget system has been discussed by the country in a rather desultory and disinterested manner. Secretaries of the Treasury have earnestly recommended the creation of a budgetary plan under which the Government's outgo would be properly related to its income along the lines of intelligent and scientific control and responsibility. The time when this question might be considered from a purely academic point of view as to what is desirable as an improvement has now passed. The compelling force of necessity has arrived. There has been a wholesome public discussion of the matter in recent months, accompanied by an increasing realization on the part of the public of the imperative need of budgetary reform. The large expense involved in the aftermath of the war, the interest and sinking-fund charges on the public debt, and the growth of the Government leave no room for doubt that we shall never return to the prewar standard of expenditures. The cost of running the Government of this great Nation will mount into huge sums, which will be increased as additional burdens upon the taxpayers of the country by every element of duplicated effort, waste, and inefficiency. There can be no question or argument now as to the necessity of a budget system, and the people of the country, aroused to the needs of the situation, will sooner or later insist upon the adoption of an effective plan, for the answer to inaction is increased taxation.

The Treasury is pleased to note that the Congress already is giving careful consideration to this important question and has been glad of the opportunity to present its views. That there should be one single authority responsible for the preparation and execution of the Government's program of finance and that appropriations should be made not independently of each other but with reference to one single comprehensive plan of expenditure properly related to the Government's income there can be no doubt. The burden of preparing the budget must, in the nature of the case, if the work is to be properly done and responsibility centered instead of divided, rest upon the Executive. The supervision of the preparation of the budget should be vested in the Secretary of the

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Treasury, who is the chief fiscal officer of the Government and, as such, should be the representative of the President in budgetary control. The budget, as thus prepared for the President and on his responsibility, should not, as such, be increased by the Congress, and the department has ventured to express the opinion that appropriations should be considered by a single committee of the House of Representatives and the Senate. As a further step in the plan, unquestionably the audit system should be reformed by the consolidation of the offices of the Comptroller of the Treasury and the Auditors of the Treasury into one central organization, to which would be transferred the present duties and powers of the comptroller and the auditors, with the added authority to examine into and make report upon the methods employed and the results obtained by the executive departments of the Government. Such reports should be submitted to the Congress and to the Secretary of the Treasury.

Some sincere advocates of a budgetary system, in their enthusiasm to see the movement started and believing that it is not possible to obtain a reasonably complete plan in the beginning, have suggested that the reform be accomplished by gradual stages. With that view the Treasury does not agree, because such a program undoubtedly would retard rather than accelerate true budgetary reform. All movements of change proceed slowly and gradually through a period of discussion, but when the time for action arrives they must take effective form if they are to succeed. Modification of the present system will not be a budget simply because it is called a budget. An effective plan must deal with the three fundamental aspects of the problem, namely, the centering of responsibility in the Executive, the exercise of self control in the Congress, and the consolidation and expansion of the audit system. Any other plan would be misleading to the country and only result in the postponement of the desired reform.

The Treasury sincerely hopes that the Congress will proceed promptly and vigorously with the consideration of this important question. The views of this department are set forth in detail in the following statement, which was presented to the Select Committee on the Budget of the House of Representatives on October 4, 1919:

"I am heartily in favor of a budget system. Without effective control over governmental expenditures and limitation of them to the Government's income we shall bring down upon our heads the splendid structure which our fathers have built and which we have preserved. The very success (which you will pardon me if I call brilliant) with which the Treasury has financed the stupendous requirements imposed upon America by the Great War may become a menace. All sense of values seems to have departed from among us. The departments, bureaus, and boards, all inspired by a laudable enthusiasm for their work, but some by a less laudable instinct to magnify its importance bombard the committees of Congress with projects, some more or less meritorious, some of no merit whatever, but all conceived in sublime indifference to the fact that the great business of government is being run at a loss and that each one of these projects increases the deficit of the Government, and consequently the burden to be thrown upon the great body of people, whether the deficit be met by increasing taxes or by floating additional loans. For no fallacy is more grotesque than the assumption that by issuing bonds or notes or certificates of indebtedness now we may pass on to future generations the burden of our own extravagance. The burden of these issues will have to be met to-day, not only in the interest and sinking-fund charges added to an already heavy load but in the expansion of credit which is inevitable as a result of the issue of such securities, constituting as they do a prime basis for additional credit in the hands of the holders, whoever they may be. 'I shall not elaborate upon that point, but I want to say to you in all solemnity that 100,000,000 American people will pay for the extravagance of the Government, whether that extravagance finds its incidence in governmental waste or in the desire to accomplish real or fancied benefits for a portion of the community.

"Let us now get back to bedrock. Let us remember that there can be no spending by the Government without paying by the Government and that the Government can not pay except out of the pockets of the people. Let us remember, too, that in the last analysis taxes and the cost of Government loans are borne by 100,000,000 people. The burden of taxation, the burden of credit expansion, is inevitably shifted to the whole people of the United States. Some methods of finance are better than others. Some taxes are less readily adapted to being shifted from the backs of the original taxpayers, presumably better able

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to bear them, to the backs of the people as a whole, but in the long run the burden of governmental waste and extravagance falls more heavily upon the poor than upon the well-to-do and more heavily upon the well-to-do than upon the rich. By graduated income taxes we tend to mitigate this consequence, but we can not wholly avoid it. Let us not fail to remember that the Government of the United States is simply a name for the people of the United States and that all of the people of the United States will pay in inverse order to their ability for extravagances of the Government perpetrated in the interest of a portion of the people or a section of the country.

"You, gentlemen, I am sure, have learned as well as I by long service in Congress that the instincts and enthusiasms of departments, bureaus, and boards find support in the committees of Congress appointed to have charge of their particular affairs. As a result we find that governmental expenditure initiated in a department of the Government charged with the specific business of creating an army, or of creating a navy, or of creating a merchant marine, or of stimulating commerce, or of protecting labor, or of aiding the development of agriculture, is submitted to the Congress without consultation with or approval by the finance officer of the Government, the Secretary of the Treasury, who serves merely as a messenger, and whose office is charged with the heavy burden of finding financial means in loans and taxes to meet expenditures; and when it reaches the Congress is referred to the corresponding committees of the Congress whose specific function is also to see to the development of the Army, the Navy, the merchant marine, etc. And the Congress passes upon all of these projects—good, bad, and indifferent—without a report from the Committee on Ways and Means or the Committee on Finance, the committees of Congress which share with the Secretary of the Treasury the heavy burden of finance.

"It undoubtedly is true that, oftener than otherwise, the sum of department estimates is greater than allowed by the committees of Congress. I have heard it said that this is invariably so. I suspect that estimates are frequently contrived with a confident expectation of such a fate. Nevertheless, it must be admitted that each jurisdictional committee deals with estimates in a singularly sympathetic spirit that would not be manifested by a budgetary official charged with the responsibility of advising the Congress as to the levying of taxes as well as with the responsibility of collecting the money of which appropriations are made. Moreover, it will not be denied that these various jurisdictional committees, acting separately and without complete information concerning the activities of one another, accentuate the importance of the departments, bureaus, and boards which they respectively have under their care. This would not be so if appropriations were made by a single committee, any more than would the initial estimates be allowed so far to exceed the probable revenues if the finance minister of the Government were given power to assemble, review, and alter them before transmitting them to the Congress. Extravagance of executive departments and bureaus would thereby be appreciably restrained. I think it amazing that under such a system the Congress has done so well for so long a time; but I feel constrained to warn you gentlemen, in view of the greatly expanded activities of the Government and the extraordinary financial burdens which the country must endure, that it would be hazardous to continue on the old way of transacting the public business.

"The Government of the United States is like a great company whose operating managers, publicity managers, sales managers, purchasing department, are given carte blanche to make expenditures conceived by them to be in the interest of the development of the business, without consultation with or control by those officers of the company who are charged with the business of ascertaining its revenues and borrowing the money to make good their deficiencies.

"Or, again, the Government of the United States is like a private family in which the wife, having charge of the spending part of the family's business, were given carte blanche to buy houses, yachts, automobiles, clothes, and food and to employ servants, as she might find wise, with a view to increasing the comfort, improving the education, cultivating the taste, and enhancing the prestige and social standing of the family; and the husband's sole business were to see that there was money in the bank to meet her checks as they were presented.

"That is a most pronounced hyperbole, but it is literally true that the Secretary of the Treasury under existing law and practice is unable to obtain from any department of the Government an accurate or approximately accurate estimate of its expenditures for a few weeks in advance, not to say months or years.

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He must be guided not by information furnished by them, but by his own shrewd guess as a result of putting together an infinite number of little facts and figures. That the Treasury has been able, notwithstanding these intolerable conditions, to finance the Government through the great war and up to this date without impairing the credit, but, on the contrary, with enchancement of the credit of the Government of the United States, is due, first, to the loyalty and devotion of the whole American people throughout the period of the war, to the magnificient efforts of the patriotic Liberty loan organizations, to the unqualified support given the Treasury by the Congress without regard to party, and, if I may say so, to the rather exceptional skill and ingenuity with which the Treasury has been conducted during this difficult period. But I say to you it is an intolerable thing that such conditions should exist and that the welfare and economic life of the American people should be at the hazard of such things as these.

"As a former colleague, and in a spirit of frank comradeship which such association inspires, I am prompted here to enter a complaint which may not be ascribed to a desire to be critical, but to a hope that it may be given serious attention in behalf of administrative efficiency. The Congress votes with a lavish hand stupendous sums conceived in a magnificent spirit of generosity with a view to the enhancement of the prestige of the Nation, or for the benefit of this or that element in the community. This it does upon the advice of the committee of Congress charged with the business of caring for such special interests. Then, speaking through the great Committee on Appropriations, it pursues a policy of restriction with relation to the expenditures of some of the departments of the Government which makes it impossible for those departments to conduct the vast affairs imposed upon them with efficiency and economy. The Government of the United States to-day is spending hundreds of millions of dollars, even billions of dollars, for armies, for navies, for merchant fleets, and other magnificient activities and at the same time refusing the payment of a living wage to the faithful clerks and employees in departments of the Government charged with the stupendous responsibility of transacting these vast affairs honestly, expeditiously, and economically.

"While your committee is considering a budget and an audit in the interest of the Government, the Government of the United States is in danger of losing millions of dollars because some of the departments charged with the conduct of its business are undermanned, limited to the employment of less efficient help than they should have, and provided with insufficient space to house those employees. While you are considering the reform of the audit, the work in the office of the auditors is months behind because of the failure to provide an adequate force or adequate space to transact their business.

"While you discuss the budget plans and audit plans the Congress withholds the necessary funds to erect an adequate vault for the protection of the vast gold store of the United States. It withholds the necessary appropriation to enable the Treasury of the United States to count Federal reserve bank notes and national-bank notes turned in for redemption, with the result that the Treasury is unable to take credit for those notes and is obliged to borrow corresponding sums of moneys at interest running at 4½ per cent and 4½ per cent and this notwithstanding that any appropriation made for this purpose will be charged back to the banks and cost not one penny to the Government of the United States. Bonds, notes, and gold with the custody of which the Treasury is charged are inadequately protected. There is an insufficient force to care for them. The force we have is underpaid. The work in the Treasurer's Office is behind, the work in the Division of Loans and Currency is behind, the work in the Division of Public Moneys is behind, the work in the register's office is behind, the work in the offices of all the auditors is behind, and the securities and moneys of the United States are inadequately protected because the Congress withholds the necessary appropriations.

"I have spoken of the need of an executive budget covering all appropriations asked for by the executive departments. But let us be honest with ourselves and honest with the American people. A budget which does not cover the initiation or increase of appropriations by Congress will be a semblance of the real thing. I note that not a little has been said about the constitutional prerogatives of Congress, but I know of no clause in our Constitution that will prevent the Congress exercising self-control. The House of Congress can, by amendment of their own rules, surround with proper safeguards the initiation and the increase of appropriations by Congress.

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"To-day the credit of the United States is emperiled by projects initiated and supported on the floor of Congress with a view to capturing the so-called soldier vote. I do not believe for a minute there is any such thing as the soldier vote. I do not believe that that magnificent body of strong, brave, lusty young men who went out to France, or were ready to go, want to see the people of the United States exploited in order that each of them may receive a donation. I do not believe these fine young men, if they realized what it is that is proposed in their behalf, would accept a gift made at the expense of their fathers and mothers and sisters and the children that are to come after them in order to give them a holiday. While of course you can not commit to terms of money the value of the service rendered by the Army of America, I call your attention to the fact that the actual pay of our soldiers was doubled at the outset of the war, that our soldiers have been paid with liberality never dreamed of in the history of this or any other country, and that the projects now advocated so lavishly and with so little regard for the welfare of the American people are not limited to those heroic men who suffered injury or death at the hands of the enemy, not even to those who actually saw the front, not even to those who were sent to France. These projects extend to everyone of some four and one-half million men, mostly young men, who were included in the military and naval forces of the United States, even to those of their number who sought and obtained employment of a character which would relieve them from being exposed to personal risk.

"It has been the disheartening task of the Treasury to examine scores and scores of bills drawn and presented with a view to benefiting a section of the country or a portion of its citizenship at the expense of the whole. Many of these bills were apparently devised to avoid the appearance of an appropriation by requiring the Secretary of the Treasury to issue bonds, notes, or certificates of indebtedness to meet the expenditure involved, and all of these bills were such as would not be reached by a purley executive budget.

"I have said the finances of the United States are in excellent condition. I have said in substances that I do not anticipate a deficit in the current fiscal year in excess of $1,000,000,000, and that that deficit is covered by deferred installments of the Victory loan, payable within the fiscal year. I have said that there need be no more Liberty loans. But I say to you in all solemnity that if a prompt and immediate halt is not called to this great peril there must be another Liberty loan, and you gentlemen will have to go out to the people of the United States and call upon them to subscribe for bonds, the proceeds of which are to be given away to the well and strong young men who you and I and the American people know went out in a spirit of unselfishness, not one of self-seeking, to fight for their country. You may ask the old men and the widows, the school children, the rich and the poor, who responded to the call of their country to the number of twenty millions during the period of the war to respond again to this call for a donation. I hope I shall never shrink from the performance of any public duty, yet I do not covet the task of making such an appeal, and I shall not willingly be a party to offering this affront to the generous, heroic, unselfish Army and Navy of America that saved the freedom of the world.

"The Congress may propose to pay this gift in bonds themselves; but that should not fool anyone. If bonds are given away to the soldiers the issuance in that manner of those bonds will depress the prices of existing bonds so gravely as to imperil the credit of the United States and force additional sacrifices from the twenty million people who participated in financing the war, in providing the pay, food, and munitions which made it possible for our splendid Army to contribute decisively to the great victory.

"I have spoken of the initiation of appropriations in Congress. Let me speak also of the increase of appropriations. As you all know, and as I know after 17 years in Congress and not more than half as many months in the Treasury, the processes employed in framing and passing public buildings and rivers and harbors bills lead to a great waste of the money of the people. The continuance of the United States Government's activities where they are not needed, whether those activities be Army posts or subtreasuries or hospitals, would have scant consideration in a real business budget submitted by a finance minister duly empowered by law and managed through Congress by a single committee under rules of limitation imposed by the Congress on itself. In my belief you can not make a real budget unless you face these facts and deal with them. The Congress of the United States in attempting this great reform in

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the interest of economy and efficiency will fail and fail utterly if, while imposing the necessary firm control over the expenditures of the executive departments, it fails to exercise the sublime quality of self-control.

"Coming to matters of detail, let me summarize briefly my views as follows: First, a budget, to be effective, must cover all appropriations and all increases of appropriations, whether initiated in the executive departments or in the Congress. The bureau of the budget should be in the office of the Secretary of the Treasury, the officer of the Government charged with the heavy burden of finding the means to finance its requirements. The division of responsibility is the bane of our Government. It is intolerable that the Secretary of the Treasury should have no voice in the determination of the expenditures of the Government. It is intolerable to think that his function should be merely to go out and borrow the money when some one else has spent it without consultation with him or consideration of the means to raise it. The preparation of the budget should be the principal duty of the finance minister. We all know that the President can not do this thing.

"We all know that a bureau chief in the office of the President would be helpless to assert his opinion in opposition to the members of the President's Cabinet. Projects of the Government involving expenditures should be determined in conference between the members of the Cabinet concerned, and the President's decision should be final. So far as concerns the question how much money can be raised in loans and taxes and to what amount, therefore, the total expenditures of the Government should be limited and for all budgetary work the President should obtain his advice from the Secretary of the Treasury and not from a bureau chief appointed for the purpose and paralleling the work of the Secretary of the Treasury. The budget plans presented to this committee generally do not contemplate increasing the voice of the Secretary of the Treasury in determining the Government's expenditures, but, on the contrary, contemplate depriving him of such voice as he already has. I ask you what there is in the record of the Treasury of the United States from the time of Alexander Hamilton to this present day which justifies this distrust? Which of the departments of the Government has deserved better of the American people or of this Congress? What reason have you to believe that the Secretary of the Treasury, with the support of the great institution over which he presides, the oldest of Government departments, can not, if due authority be conferred upon him, undertake this task so vital to the welfare of the people and so vital to the success of the administration of his office? We multiply boards and bureaus, we multiply clerks and statisticians, and perpetually we attempt to hobble those great officers of the Government upon whom rest the responsibility for producing the necessary results. Why not go back to first principles and trust these men until they fail you and then get rid of them? What good can come of a policy of imposing tremendous responsibility upon the great officers of the Government and then tying their hands so that they can accomplish nothing?

"Whether the budget service should be in the form of a bureau in the Treasury is a matter of detail which can be worked out. Whatever form such a staff of the Secretary of the Treasury should take, I am inclined to believe that it should be composed of experts whose tenure of office, with the possible exception of the head, would be in the nature of permanence.

"If this additional duty should be imposed upon the Secretary of the Treasury, I think it would be wise to relieve him of activities which have no relation to the financial operations of the Government. The department should retain all the fiscal bureaus and divisions, and the Coast Guard, which has to do with the collection and protection of the revenue; but in a readjustment of this character I think that it could well dispense with the Bureau of War Risk Insurance, the Bureau of Public Health, and, perhaps, the Supervising Architect's Office.

"Second, when the budget has been received by the Congress, it will be accepted as the President's program of finance. If I may venture an opinion as to whether the budget should be considered in one committee or distributed among the present committees that consider appropriations, I should say that it would be preferable to consider it as a whole and by one committee. The forum of consideration, however, is not quite so important as the question of the disposition of the budget at the hands of Congress. That, in my judgment, is of the essence of an effective budget. While Congress should retain the right to reduce the estimates, I believe that it should, as far as the budget itself is concerned, put some distinct limitation on the right to increase any item either

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in committee or on the floor unless recommended by the Secretary of the Treasury; or, in the absence of such recommendation, unless approved by two-thirds of the membership of Congress. The only increase on the floor which should be permitted would be the restoration of an item reduced by the committee to the original figure recommended by the Secretary.

"Under such a scheme the budget would come out of Congress practically as the President's budget and for which he must stand definitely responsible before the country. If the Congress desired to propose new expenditures, it should be done in a separate bill, and if the expenditures which such legislation would entail would make the total expenditures exceed the estimated revenues, the Congress should provide in the bill of appropriation specifically for the rquired revenue to make up the deficit: In this way Congress would not forfeit any right to initiate appropriations, but such right would be only separated from the budget.

"The program would stand before the country with a clear line of demarcation as to the appropriations for which the President was responsible and those for which the Congress assumed the principal responsibility.

"Third, there should be an audit and an effective audit. The audit now provided by law is effective when made to insure that expenditures have been made in accordance with law. The first step before Congress is to appropriate funds sufficient to enable the auditors to make the audit which is provided for under existing law. The second step is to enlarge the scope of the audit, strengthen the powers and enlarge the force so that there may be covered also the question whether expenditures have been made efficiently, economically, and without duplication. For this purpose it is vitally necessary that there should be only one auditor instead of half a dozen. It is desirable that the offices of the comptroller and auditors should be rolled into one. As a step in that direction Secretary McAdoo on October 25, 1918, issued an order directing the Comptroller of the Treasury to exercise administrative supervision and direction of all the auditing offices. This was the first time that the auditors were placed under the administrative control of the comptroller, and the order was as far as it was possible to go without amendment of the law.

"In connection with the suggestion that the Comptroller of the Treasury and the auditors be divorced from the Treasury Department and erected as an independent establishment, it is not clearly defined in any of the proposals just what change is contemplated in the accounting system. It must be remembered that the comptroller and the auditors are not merely auditors of expenditures with respect to their regularity and legality, but they are the accounting officers of the Treasury.

"They pass upon and check the accounts in connection with every financial transaction, whether it relates to the receipt of money, to direct payments out of the Treasury, to repayments to the credit of appropriations, to credits to disbursing officers, or to payments by disbursing officers.

"In the management of the Nation's finances the Secretary of the Treasury must have an effective system of accounting and bookkeeping. If the comptroller and auditors were transferred from the Treasury I am inclined to think that it would be necessary to duplicate much of this accounting and bookkeeping in their offices. If the comptroller, as an independent officer, is to be in a position to give information to the Congress, as the suggestion seems to contemplate, unquestionably it would be necessary for him to duplicate the bookkeeping operations of the Division of Public Moneys and the Division of Bookkeeping and Warrants of the Treasury Department, and also some of the bookkeeping operations of the office of the Treasurer of the United States. At the present time, however, I express no definite opinion on this suggested change because it has not been put forward in such detail as to permit the expression of judgment from the standpoint of the accounting and bookkeeping requirements of the Treasury. If the auditing department should be without the walls of the Treasury, it is vital that the auditor or comptroller, whatever he may be called, should be as free from interference by the members of the legislature and by members of the other departments of the Government as he is now in the Treasury. It has been the duty and the pleasure of the Treasury Department to uphold the comptroller in his independence as a quasi judicial officer, even in cases where his determinations did not commend themselves to the Treasury. It is, of course, only human for the comptroller to favor his own personal elevation from a subordinate to an independent position. There is nothing blameworthy in that. The present comptroller has my support and confidence. He is a brave, upright and, on the whole, wise public

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servant. Whether any comptroller would be able to exercise his functions as effectively and freely, deprived of the support and prestige of the great Treasury Department and left to stand upon his own feet as the head of an independent office, I am doubtful. On the whole, I am inclined to the view that the best interests of efficiency and economy require that the audit be conducted under the supervision of the finance minister of the Government, the man upon whose shoulders will fall the consequences of extravagance and waste.

"The act of March 4, 1909, provides:

"'Immediately upon the receipt of the regular annual estimates of appropriations needed for the various branches of the Government it shall be the duty of the Secretary of the Treasury to estimate as nearly as may be the revenues of the Government for the ensuing year, and if the estimates for appropriations, including the estimated amount necessay to meet all continuing and permanent appropriations, shall exceed the estimated revenues the Secretary of the Treasury shall transmit the estimates to Congress as heretofore required by law and at once transmit a detailed statement of all of said estimates to the President, to the end that he may, in giving Congress information of the state of the Union and in recommending to their consideration such measures as he may judge necessary, advise the Congress how in his judgment the estimated appropriations could with least injury to the public service be reduced so as to bring the appropriations within the estimated revenues, or, if such reduction be not in his judgment practicable without undue injury to the public service, that he may recommend to Congress such loans or new taxes as may be necessary to cover the deficiency.'

"It has been stated that this section of law contemplates the preparation of an adequate book of estimates along budgetary lines. Such, in my judgment, is not the case. In the first place the act states that in case the estimates for appropriations exceed the estimated revenues, a detailed statement shall be made to the President by the Secretary of the Treasury in order that he may advise the Congress how in his judgment the estimated appropriations could with least injury to the public service be reduced, or, if they can not be reduced, in order that he may recommend such loans or new taxes as may be necessary to cover the deficiency. I call your particular attention to the fact that the act states that in the contingency mentioned the President may recommend how the appropriations may be reduced. That is an implicit sanction by law of the present situation, or at least a recognition in the statute that the estimates as now submitted are compiled without regard to the Nation's income. When the estimates go to Congress under any proper system they should represent in the first instance the minimum requirements of the Government as related to its prospective receipts.

"In the second place I invite attention to the fact that this law applies only to the regular annual estimates of appropriations—that is to say, the appropriations which are submitted for the ensuing fiscal year. It does not apply to estimates for deficiencies and supplemental appropriations. When the Secretary of the Treasury sends the Book of Estimates to the Congress, less than one-half of the current fiscal year has expired, but there is no requirement in law for any action whatever on the part of the Executive in case of an estimated deficit in the Treasury at the end of that current fiscal year as a result of deficiency and supplemental estimates.

"In the third place I should point out that this law compares estimated receipts and estimates of appropriations, whereas it should compare estimated receipts and estimated expenditures. At the time it was drawn, however, it was not customary for the Secretary of the Treasury to estimate the expenditure for the ensuing fiscal year.

"It has been stated that no attention has been paid to the statute. The facts are these:

"The estimates for the fiscal year 1911 were transmitted to Congress December 6, 1909, and therefore were the first regular annual estimates of appropriations to be transmitted after the passage of the law.

"The 1911 estimates showed an estimated excess of ordinary receipts over ordinary appropriations of $35,931,327.49, but with the Panama Canal appropriations added instead of a surplus there would be shown a deficit of $12,132,197.21. As authority existed for the issue of Panama Canal bonds, undoubtedly it was held that the act of March 4, 1909, did not apply, there being more than sufficient revenue to meet the estimated ordinary appropriations for 1911. This assumption is confirmed by the fact that the annual

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report of Secretary MacVeagh for 1909 refers to the sale of bonds or certificates of indebtedness to meet anticipated deficit shown in the estimates.

"For the year 1912 the same condition was presented, it being estimated that the ordinary receipts would exceed the ordinary appropriations by approximately $49,500,000, but taking the Panama Canal appropriation into account there would be a deficit of more than $7,000,000. A similar condition existed for 1913.

"The estimates for 1914, sent to Congress on December 2, 1912, were $732,556,023.03, and estimated receipts $710,000,000, showing an estimated deficit of $22,556,023.03, exclusive of Panama Canal appropriations. President Taft reported this deficiency in his message to the Congress December 6, 1912, and in his annual report submitted to the Congress in December, 1912, Secretary MacVeagh made the following observation:

"'These estimates of appropriations, of course, are based upon conditions that now exist and upon the laws which now prevail; and between now and the end of the fiscal year 1914 much may occur through legislative action to change the basis upon which they are made. There are also included in these estimates items for projected public works the payments for which will not be concluded during the fiscal year in question.'

"Estimates for 1915, transmitted to Congress December 1, 1913, showed estimated ordinary receipts of $728,000,000 and estimated ordinary appropriations of $714,684,675.02, the estimated surplus of ordinary receipts being $13,315,000, exclusive of Panama Canal appropriations. When the Government's revenue was largely decreased by reason of the European war, President Wilson delivered a special message to Congress on September 4, 1914, urging that additional revenue of $100,000,000 be raised through internal taxation.

"For 1916, the estimated excess of ordinary receipts over ordinary appropriations was $21,234,895.20.

"The annual report of the Secretary of the Treasury of December 6, 1915, pages 48 to 52, deals with receipts and disbursements for 1916 and 1917, and recommended the means of obtaining the additional revenue required for the fiscal year 1917. In conformity with the statute, President Wilson similarly dealt with the situation in his message to Congress December 7.

"The annual report of the Secretary of the Treasury, sent to Congress in December, 1916, referred to the estimates for the fiscal year ending June 30, 1918. The estimates indicated that there would be a deficit on account of the program of preparedness. The Secretary pointed out that on account of the untried new revenue laws relating to taxation of inheritances and war munitions, and the uncertainties as to the actual expenditure that might be made on account of the large program for preparedness, it was very difficult to estimate with accuracy the receipts and expenditures for the fiscal year 1917 and particularly for the fiscal year 1918. He urged upon the attention of Congress the necessity of passing such measures as would provide additional revenue to meet the preparedness program. This was only a few months before the declaration of war. After war was declared, the Secretary of the Treasury was in constant touch with the Committee on Ways and Means of the House and the Finance Committee of the Senate, advising them periodically of the needs of the Government. As a result of these advices the Congress levied taxes and authorized issues of securities as the needs of the Government developed."

The CHAIRMAN. If there is nothing further, the committee will now adjourn.

(Thereupon the committee adjourned to meet at 10.30 o'clock a. m. on Tuesday, January 13, 1920.)

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NATIONAL BUDGET.

TUESDAY, JANUARY 13, 1920.

UNITED STATES SENATE,
COMMITTEE ON A NATIONAL BUDGET,
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to adjournment, Senator Medill McCormick presiding.

Also present: Senators Simmons and King.

The CHAIRMAN. Will you proceed, Mr. Lill?

STATEMENT OF MR. THOMAS R. LILL—Resumed.

Mr. LILL. I stopped yesterday, I think, with the discussion of the 30 to 40 per cent waste with Senator Simmons. I am sorry he is not here, because I wanted to call his attention to the War Risk Insurance Bureau which, Senator Smoot has pointed out on the floor of the Senate, has 8,000 clerks which could be dispensed with just as easily as not. I do not think that the departments are wholly responsible for any waste which is occurring, or inefficiency. I think it is partly due to Congress. I wish to state the various steps which. in my opinion, should now be taken.

My theory is that at the present time an immediate reduction of expenditures is necessary, and therefore the budget problem divides itself into two parts: First, is the securing of an immediate reduction of expenditures, and later the providing for a scientific budget plan.

The first step which should be taken to reduce expenditures immediately is that the committees of both Houses of Congress should be reorganized so as to appoint a joint committee of from 3 to 15, or possibly more, Members for each of the independent bureaus and departments of the Government. These committees would act more or less as a board of directors in a subsidiary corporation. My theory is that the Government should be organized more or less along the line of a holding corporation.

The CHAIRMAN. How could a committee of Congress, under the Constitution of the United States, act as a board of directors?

Mr. LILL. They could do it just as they are doing it now. The Appropriations Committees act practically in that capacity.

The CHAIRMAN. Well, you know that when information is asked it is within the discretion of the Executive to accord it, and it has been refused and is refused repeatedly, under the constitutional right of the Executive.

Mr. LILL. This is a change in the present committee system of Congress that I am advocating. When I say a board of directors, I mean that the different committees which are now in existence should

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be reorganized so that we will have an appropriation committee for each of the different departments and bureaus of the Government.

The CHAIRMAN. Is not that one of the things about which there has been great complaint—that we have precisely that?

Mr. LILL. That is true, but it is due to the fact that they are not coordinated. The chairman of each of these subcommittees would become members of the central appropriations committee. There you would have practically your holding company with your subcommittees. The present committees of Congress could easily be coordinated that way by having a general appropriations committee and having all these other committees which are now in existence report to that general committee.

The CHAIRMAN. Do you conceive, Mr. Lill, that there is not a committee or subcommittee for each appropriation bill that goes through?

Mr. LILL. I beg pardon?

The CHAIRMAN. I say is it your understanding that there is not a committee or subcommittee for each appropriation bill that goes through?

Mr. LILL. No; I understand that there is; that all bills pass through some committee, but the bills which are approved by the committees are reported to the House separately, and there is no general total. We do not know what we have spent or appropriated until the end of the session when we add up the different appropriation bills.

It is my theory that these appropriation bills should be reported back by the subcommittees to the general committee and voted upon as a whole.

The CHAIRMAN. Let me ask if you are familiar with the French budget practice?

Mr. LILL. Not very.

The CHAIRMAN. That would have a bearing on the suggestion which you make.

Mr. LILL. No; I am sorry to say I am not very familiar with it.

The CHAIRMAN. They vote a single bill, divided into chapters; a chapter, as it were, for each department. They vote separately on the chapters first and then on the bill as a whole.

Mr. LILL. I think that is the idea that I would recommend, because it would give a certain number of the Members of the House and the Senate an intimate knowledge of the department, and they could speak, if necessary, upon the floor of the House.

The second step which I consider necessary for the immediate reduction of expenditures—that is, for the year 1921, at least—is that the appropriations for the Government should be in a lump sum for each department, merely divided as between salaries and wages, expenses, and capital outlay.

The CHAIRMAN. Have you seen the report of the select committee of the House of Commons on that subject?

Mr. LILL. No, sir; but I do not think that we should give too much weight to any reports which have been rendered in foreign countries or even here at the present time. We have a condition here which is right before us.

The CHAIRMAN. So have they.

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Mr. LILL. Well, I do not know that they advocate——

The CHAIRMAN. Their cure is——

Mr. LILL. A segregated budget?

The CHAIRMAN. The reverse of this.

Mr. LILL. You see it is a peculiar thing, Mr. Chairman, that in all this question of governmental reform, that is all through our hearings, England has been referred to as a model. At the same time that we are doing that England is referring to us. England, for thirty or forty years, has looked with great admiration on the fact that our congressional committees have reduced estimates, whereas in England they were never reduced. I do not know that what England wants in that particular case would suit us at the present time or not. I have always found that budget procedure has got to be made to fit particular conditions that you want to improve.

The activities which were carried on in 1916 should possibly be granted an increase of 50 per cent over the 1916 figures for increased cost. New activities entered into since that date should be set out separately so that we can look at them and study them.

The third step for the immediate reduction of expenditures is the establishment of a controller general of the United States, with the powers and duties similar to those conferred on the controller general of the Republic of Mexico, as shown by this translation of the law now in force, which we inserted in the record yesterday.

Mr. LILL. The adoption of any one of these three recommendations is largely contingent upon the adoption of all of them to make them effective. The organization as outlined will provide for a much more effective control over public expenditures than anything we have ever had.

The fourth step is that the House and Senate should have their separate appropriation committees. The Members of the House Appropriations Committee should be the chairmen of the various committees heretofore referred to, and the Senate Appropriations Committee should be composed of the Senate Members of the committees referred to.

Those are the four steps which I recommend to secure the immediate reduction in the expenditures.

The form of budget [exhibiting statement] which is not the detailed budget, as passed by Congress, but the lump-sum totals and allotment for the month of March was signed by Mr. Carranza, and shows the effect of this procedure upon the national finances there. He reduced the monthly expenditures, as authorized by Congress, from $16,500,000 to $10,500,000, a saving of possibly 5,000,000 pesos a month.

As I said, our program should be divided between the study of things to effect an immediate reduction of expenditures, and a scientific development of a budget procedure, together with a logical form of government, and at this time it seems to me that we should provide for a joint committee of both Houses, to be in existence, say, for two years, with full power to transfer activities from one bureau to another.

The CHAIRMAN. Under the Constitution, how can you confer any such powers on committees of Congress? This is not Mexico; this is the United States.

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Mr. LILL. With full power to recommend. I am in error. I understand, of course, that a committee must recommend to Congress, and it does the adopting.

The CHAIRMAN. You can not confer full powers.

Mr. LILL. We need also a reorganization of the Government. I think there is not much doubt about that. I would like to see a department of education, a department of health, and a department of public works, as a first step, the heads of these departments to be members of the Cabinet.

Senator KING. Some of us will very heartily disagree with you in that regard.

Mr. LILL. It would not be the first time, sir, that people had disagreed with me.

Senator KING. There is too much assumption now by the Federal Government over the affairs of the States in the purely domestic and internal matters of the country.

Mr. LILL. That refers particularly, of course, to education; but we are doing a great deal of educational work in the Federal Government.

Senator KING. That is not the function of the Federal Government; that is the function of the States.

Mr. LILL. As a definite budget procedure, Mr. Senator, I strongly recommend that the budget be submitted to the Congress by the Secretary of the Treasury. I think the idea of having the President do that is a pernicious one. I do not think that the Secretary of the Treasury should have the right to revise the estimates in detail. I think that his power should be restricted to dealing with the totals more than anything else, and the idea of the function of the Secretary of the Treasury in the preparation of the budget, as outlined by Mr. Secretary Glass in his testimony before the House Committee, which I think is——

The CHAIRMAN. The Secretary is coming before this committee this week.

Mr. LILL. I think that particular paragraph is very good. I can give you the page if you want it.

The CHAIRMAN. We have the House hearings, Mr. Lill.

Mr. LILL. It is page 490 of the House hearings.

Regarding the comptroller general, Mr. Chairman, I strongly urge that any law which may be passed define the powers and duties of the comptroller, instead of merely creating the office and conferring upon him all of the indefinite powers and duties which are now conferred upon him by law or custom as the result of 130 years of our national life.

The CHAIRMAN. May I ask you a question on that point?

Mr. LILL. Certainly.

The CHAIRMAN. There are about 25 or 30 existing statutes dealing with accounting and auditing. The whole question of the comptroller general and his relation to Congress and the control of expenditures, especially considering the number of statutes on the subject of accounting and audit, it seems to me is so great and of such incalculable importance that we ought to deal with that problem in a bill separate from the one which touches the preparation of estimates of revenue and expenditure. Yesterday, when Senator Smoot and Dr. Butler were engaged in colloquy upon that subject

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it seems to me that, in a sense, they were arguing at cross-purposes. The assembly and revision of estimates which some of us contemplate is merely an energizing of the established practice. What we need for Congress is a comptroller general with real powers, but the subject is so vast—and I want to hear these other accountants on the subject—that I shrink from making a slapdash proposition until we can have hearings on that subject and that alone, and probably employ draftsmen to go over every one of these 25 or 30 statutes and see where they conflict or overlap. What do you think of that, Mr. Lill?

Mr. LILL. I think that is exceedingly wise. I do not know that Mr. Oakey, who follows me, agrees exactly with my theory of the comptroller general, but we are both agreed, I know, on the fact that an adequate system of accounting is practically the first step in any budgetary reform, and we will not have any budgetary reform until we have an adequate system of accounting, checking up the budget and providing figures for the estimates.

The CHAIRMAN. I have no idea whether I will agree with you or Mr. Oakey, or either of you, but that subject seems to me of such tremendous importance that it ought to be dealt with thoroughly and after due consideration, and in a bill separate from that dealing with the estimates of revenue and expenditure.

Mr. LILL. I have nothing else to say, Mr. Chairman, unless you want to ask me some questions.

Senator KING. I have been unable, Mr. Lill, just to see how we are going to effectuate the reforms for which you and other witnesses have pleaded. We need, of course, efficiency, and I think there ought to be an executive or legislative efficiency board that would have power to go into the departments and install machinery for the purpose of reducing expenses and for the purpose of bringing about reforms and more economy in the administration, but what I was going to suggest is this: How are you going to deal in your budget system with a situation such as this?

For instance, the Pensions Committee, of which I am a member, meets this morning. A year ago the representatives of the G. A. R. appeared before us and stated that if we passed their soldier pension bill which brought the annual pensions at that time up to a figure of over $225,000,000, that no further request would ever be made for an increase in pensions.

The House the other day passed a bill increasing the pensions—fifty, sixty, or seventy millions—and it is before our committee today. The governors of a number of States are here and will have a meeting in a few days asking for an appropriation of several hundred millions of dollars for reclamation projects in the West. Millions of dollars will be demanded from year to year, and in increasing amounts, for rivers and harbors. A subcommittee has been appointed to investigate the demand for about $20,000,000 or $30,000,000 for Charleston harbor.

Those are just a few of the multitudinous examples that come before Congress, not monthly but weekly and daily.

The President and no executive, no budget commission, could anticipate those things. Even if they could anticipate the extravagant demands which will be made, they can not tell just what Congress will do, nor how the revenues are to be raised to meet those

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demands which will be made and which in part will be gratified. How are you going to meet those situations?

Mr. LILL. I think, Mr. Senator, that the remedy is so simple that the fact that it has not been applied makes me doubt the value of Congress to some extent. If Congress would adopt a rule that no appropriation or legislation could be initiated on the floor, that would cure that evil. It would have to go to the Executive, to be included in the annual budget. They could adopt another rule——

Senator KING. Let me say this, that that never will be done under our form of government.

The CHAIRMAN. So long as the Executive is dependent upon Congress.

Mr. LILL. There is another way of handling that, and that is, when these projects come up, to have the House adopt a rule that the project, as approved, shall be included in the annual appropriation bill of the year, subject to further revision. If you have all these things come up before Congress yearly in one lump like that there will not be near so much chance of passing them, and the people will see them.

With regard to this budget legislation, in the House particularly, there has been no time in the last 20 years that we could not have had a budget, merely by changing the rules. We have the essentials of a budget system to-day.

The CHAIRMAN. I do not agree with you, Mr. Witness. So long as there is no agent of the President whose function it is to speak for him in fixing the maximum which the Executive is going to ask of Congress, there can not be any true budget.

Mr. LILL. But, Mr. Chairman, we have that; we have the Secretary of the Treasury.

The CHAIRMAN. But he has no power to fix the maximum under the law.

Mr. LILL. These estimates that are submitted by the Secretary of the Treasury are only submitted after a conference of the Cabinet members, and I understand the President signs them.

The CHAIRMAN. That is sometimes true, and sometimes not. If you will make inquiry, you will find it is dependent not upon the power of the Secretary, but his activity, his physical energy, and his force of character, whether he has asserted himself in demanding a reduction of the estimates or not.

Mr. LILL. But you would have no information anyway as to whether he did or not, because whatever action he takes is in the Cabinet meetings in the White House with the President, so that when the Secretary of the Treasury comes to you——

The CHAIRMAN. On the contrary, I should say, from the little I have heard in the last 20 years, that it is not merely done in the Cabinet meetings, but in conference with his colleagues, that he has perhaps been most effective in making reductions.

Mr. LILL. But there has been nothing in our law that prohibits the Secretary of the Treasury from doing that.

The CHAIRMAN. There is nothing which authorizes him to say, "You may not incorporate more than so much in your estimates." All he can do now is to persuade and plead.

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Mr. LILL. How can you pass a law of that kind? Are you not speaking of something which can not be done? The President of the United States is the final judge.

The CHAIRMAN. You may delegate by law the power to do that to any agent, under his direction.

Mr. LILL. But what power could you give, Mr. Chairman. If you give that power to the Secretary of the Treasury and he said, "The Department of the Interior will have $25,000,000 this year instead of $35,000,000, which it asked for," and the President says, "No; I want it to have $35,000,000"——

The CHAIRMAN. It has got to be subject to the President.

Mr. LILL. The Secretary will resign.

The CHAIRMAN. Alexander Hamilton had the power which it is proposed in this bill to restore to the Secretary of the Treasury.

Senator KING. What would you do, Mr. Lill, in a case like this? Every session we are called upon to pass numerous deficiency appropriation bills. Congress, after a scrutiny of the demands of the departments, bureaus, and instrumentalities of the Government, makes certain appropriations for them. The officials, before the end of the fiscal year, have exhausted the appropriations, in many instances long before the end of the fiscal year, and they go right on spending, and they come to Congress with bills, not for millions only, but tens of millions, and in some instances hundreds of millions of dollars to meet deficits. I know of departments now that, notwithstanding millions in appropriations made, are creating deficits every day.

Mr. LILL. I know of a department that was running double what was granted to it by Congress, and it started at the beginning of the year, but that situation can be easily remedied by the appointment of a comptroller general and the segregation or division of the annual appropriations up into monthly allotments.

When I made the statement that there was no time in the last 20 years that we could not have had a budget system, perhaps I should amend that and say 75 per cent of a budget system; but if the House of Representatives is not sincere in changing the rules of the House, we might just as well forget a budget system. A budget bill was proposed by Representative Good two days after the opening of Congress, for the purpose of getting budget reform before the people as a Republican measure. The Democrats were not far behind him. They were a close second. They were so close that you could hardly call them second.

The CHAIRMAN. I do not think it is becoming for a witness to attribute motives to Mr. Good or anybody else, and I will ask that that last statement may be stricken from the record, with reference to Mr. Good.

Mr. LILL. That was preliminary to the statement that the budget bill was voted upon in the House of Representatives and carried almost unanimously, with three dissenting votes. I think a change in the rules of the House of Representatives is essential to any budget reform in Congress, and yet it seems to me that the sentiment against changing the rules is just as unanimous as the sentiment was for the adoption of a budget.

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Senator KING. So that the adoption of the budget is neutralized by the failure to change the rules?

Mr. LILL. Yes, sir.

The CHAIRMAN. Going back to the early part of your testimony, Mr. Lill, as I gathered it, you are not in favor of creating a single committee to pass on appropriations?

Mr. LILL. Yes, sir. Possibly I erred in explaining that committee, or possibly I explained it from the wrong end. I do want a single appropriations committee. I recommend a single appropriations committee in the Senate and a single appropriations committee in the House. There will be subcommittees of the central appropriations committee of from 3 to 15 members, charged with the duty of handling the appropriations of each department or bureau of the Government. The chairmen of these subcommittees will be the members of the main central appropriations committee.

Senator SIMMONS. That is the scheme outlined by Mr. Willoughby in his book.

Mr. LILL. Well, I do not know about that; sir. I am trying to give you here what I think is practical, common sense.

I went down to Mexico in 1917. Its appropriations were $208,000,000, and the estimated revenues, after adequate investigation, would not amount to more $130,000,000. I presented the matter to Mr. Carranza, and told him we were running over the probable revenues and so we did what I think should be done by Congress today and the Appropriations Committees. We sat down, and after as much study as we could give it, we said, "We will spend this year 130,000,000 pesos and no more." I was one who helped to work this thing out, together with the comptroller, and it is from my experience there that I am giving you these ideas of mine.

I have read pretty widely, of course. I had to read up on all countries when I prepared the comptroller law down there.

Senator SIMMONS. You would hardly contend, however, that the United States Government, assuming we had revenues amounting to a certain amount, should make a hard and fast rule that we should not appropriate any more than that amount of money?

Mr. LILL. I do not think so, Mr. Senator.

Senator SIMMONS. If that involved the curtailment of necessary activities on the part of the Government, you would still recommend that course, rather than increasing the revenues by the levying of additional taxes?

Mr. LILL. The matter of revenues and expenditures is hooked up too intimately. Bryce said that we were a very happy country, and that our only problem was in spending our money, not in getting it. Every other country has had to worry about getting money.

The CHAIRMAN. When did he write that?

Mr. LILL. That was some time before our present income-tax law was enacted.

Senator SIMMONS. It goes without saying, of course, that the Government, to do the various and sundry very important and essential things it has undertaken to do, now is going to require a great deal of revenue. What I am trying to direct your attention to is the question of whether you would curtail those activities because the revenue arising from the taxes now imposed would not be sufficient to meet the necessary expenses for carrying on those activities.

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Mr. LILL. No; that is not the point of view I take. I do not take the view that we should match up our revenues with our expenditures to determine what we should spend. I take the other view, that we should sit down and study and determine what we should spend, taking the condition of the country into consideration.

For instance, we spent, say, $1,200,000,000 in 1916. Now, for current operating expenses, it seems to me that we would be perfectly safe in saying that 150 per cent increase for this year would be the maximum which we should appropriate. We would simply say that $2,500,000,000 is the limit which we will appropriate for this year.

Senator SIMMONS. Notwithstanding it may involve the curtailment of our program of development and of progress?

Mr. LILL. Yes, sir.

Senator SIMMONS. You do not think that this country is quite able yet financially to do what it ought to do in the interest of the people?

Mr. LILL. Well, there is a good deal of difference of opinion as to what a government ought to do. I am far from advocating that the Government is doing too much, but it seems to me we are——

Senator SIMMONS. That may be a matter of difference of opinion.

Mr. LILL. Yes.

Senator SIMMONS. And Congress would have to settle that. I do not think we are sitting here for the purpose of determining that.

Mr. LILL. No.

Senator SIMMONS. My theory with reference to this investigation is that we are trying to find out what is the best system to adopt in order to secure economy in the expenditure of money which the Congress appropriates. Whether the Congress will appropriate that or not is a question for Congress, but when it does appropriate it we want to know if it is wisely appropriated and if it is expended economically for the purpose for which it is appropriated. Now, we are trying to find out a good method to accomplish that result. These big questions of policy I do not think are questions for this investigation.

Mr. LILL. I will say, Mr. Senator, that I went over in detail in my testimony the very point you mentioned; that is, the best methods of getting this efficiency and economy and the four definite steps to be taken.

The CHAIRMAN. We have your printed statement.

Mr. LILL. My discussion of the problems you refer to arose out of questions put to me by you.

Senator SIMMONS. I am not criticizing you at all; I am just defining my notion of what we are sitting here to do.

Mr. LILL. I am sorry you were not here, but the answer to the very question which you put is contained in that testimony. I answered it specifically in four recommendations.

Senator SIMMONS. If I understand your recommendation as to the budget, it is this, that there be one central committee in both branches of Congress?

Mr. LILL. One in each.

Senator SIMMONS. To deal with appropriations?

Mr. LILL. Yes, sir.

Senator SIMMONS. That committee to be made up of the chairmen of the different legislative committees, in part, if not in whole?

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Mr. LILL. In reference to that part, I recommend that there be a subappropriations committee for each, a joint subappropriations committee.

Senator SIMMONS. Let us finish the appropriations committee itself first before we go to the subcommittees.

Mr. LILL. I recommend that, and that the members of this main central appropriations committtee consist of the chairmen of the subappropriation committees of from 3 to 15 members each, selected to consider the appropriation bills for each department and bureau of the Government.

Senator SIMMONS. But you would have a committee to appoint that subcommittee. Do you recommend that this general committee contain in its membership the chairmen of the different legislative committees of the two Houses?

Mr. LILL. I can not answer that offhand, because I do not know the committees to which you refer.

Senator SIMMONS. Well, I mean those committees that deal with legislative matters that involve appropriations.

Mr. LILL. Can you give me a specific instance?

The CHAIRMAN. The chairmen of the Military Committees, Mr. Lill.

Senator SIMMONS. Or the Committee on Rivers and Harbors, or the Agricultural Committees.

Mr. LILL. Yes, sir.

Senator SIMMONS. They are committees charged primarily with framing legislation for the government of those departments. Some of those committees are, under our system, allowed also to appropriate for those departments.

Now, I should take it that a budget system would involve changing the present system to the extent of taking away from these legislative committees the right to appropriate for these departments that they deal with, and to vest that in the general appropriations committee.

The idea that I had in my mind, is not original with me; I got it from Willoughby's book. I might have conceived it if I had not read that book, but that suggested it to me. The idea that I had in my mind was that if the chairmen of those several legislative committees were also members of this general appropriation commitee, then that committee could proceed to appoint its subcommittees and it would appoint the chairman of these legislative committees; the chairmen of the several subcommittees dealing with the departments that their legislative committees are charged with.

Mr. LILL. I think that is more or less what I had in mind, with the exception that probably——

Senator SIMMONS. That would tend to coordinate that work.

Mr. LILL. Yes, sir.

Senator SIMMONS. To bring the departments more closely in contact with the general committee?

Mr. LILL. That is what I had in mind, I think, when I made the recommendation that there should be a subcommittee on appropriations for each department and bureau of the Government, the chairmen of which would become the members of the general appropriations committee.

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Now, I rather think that the Committee on Military Affairs, of course, appropriates as well as passes legislation creating the liability. Of course, that is solved there.

Senator SIMMONS. Well, some of the committees do and some of them do not. The Rivers and Harbors Committee makes its appropriations, the Agricultural Committee makes its appropriations, and the Post Office Committee makes its appropriations.

Now, your scheme involving taking that power from those respective committees and vesting it in this general committee, does it not, leaving them to deal only with legislative matters affecting those departments?

Mr. LILL. I think so. I would have to study this over more to find out whether what you suggest is what I have recommended in my testimony.

Senator SIMMONS. I am not particularly suggesting anything; I am simply speculating. The idea that I had in my mind was this. This general committee would be composed, first, of these chairmen, first, we will say, the chairman of the Military Committee, the Naval Committee, the Agricultural Committee, the Census Committee, if you please, if you want to go down into the bureaus, the Commerce Committee, and so on, but its membership would not be confined to those chairmen; there would be additional membership, otherwise if you created a subcommittee for each one of those departments, there would be nobody to put on that subcommittee except the chairman, so that you would have additional membership.

Now, when you go to select your subcommittees you would select the subcommittee of the Agricultural Department from the main body of the committee, with the chairman of the Agricultural Committee who is also a member of the general committee, chairman of that subcommittee?

Mr. LILL. Yes.

Senator SIMMONS. So as to bring together in the general consideration of this question by the general committee not only the question of appropriations, but the question of the legislation that might be necessary for that particular department?

Mr. LILL. Yes, sir.

Senator SIMMONS. So that your appropriation and legislation might always be correlated?

Mr. LILL. I think that is wise.

Senator SIMMONS. That is the general theory that I was trying to direct your attention to, and that was what you meant.

Mr. LILL. I think that is what I meant. You can judge when you read the testimony, if you find time for that.

Senator SIMMONS. I did not hear your paper read, except the beginning of it. I was not here yesterday, Mr. Chairman. What did you have to say about an auditing bureau or division?

Mr. LILL. I go into some detail here, which I shall not read, but the main recommendation there was that in enacting a law for the comptroller general, the law should define his powers and duties, instead of merely creating the office, and giving him all the definite powers which have grown since 1790.

Senator SIMMONS. But would you create a separate auditing department?

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Mr. LILL. Yes, sir.

Senator SIMMONS. A separate bureau, rather, of some department of the Government, or would you make it independent of any department?

Mr. LILL. Entirely separate. The comptroller general law, which I include in here as representing my ideas of what——

Senator SIMMONS. Have you drafted a bill?

Mr. LILL. No; that is the law creating the comptroller general of Mexico, but I do not want you to think that it is merely a law prepared for a lot of bandits, because I took the Philippine experience.

Senator SIMMONS. I do not think the Mexican Government is a Government of bandits. I think it is a reputable Government, with a great many bandits in it.

Mr. LILL. The budget system, as developed there, is far superior to our budget system.

Senator SIMMONS. Have they an independent auditing department?

Mr. LILL. Yes, sir. That is what we created down there, a comptroller general appointed by the President, independent of the executive department.

Senator SIMMONS. They did not have one before, but while you were there you secured the adoption of one?

Mr. LILL. At that time they had practically a comptroller under the department of the treasury.

Senator SIMMONS. You said you would make this bureau independent of any of the several departments of the Government?

Mr. LILL. Yes, sir.

Senator SIMMONS. Responsible to nobody except Congress and the President?

Mr. LILL. Yes, sir.

Senator SIMMONS. Would you make it primarily responsible to the President, or to Congress?

Mr. LILL. I do not know. In the original law I drafted a provision that the comptroller should be appointed by the President, upon the advice and consent of Congress. I wanted the officer to be appointed responsible to both branches of the Government. President Carranza did not agree with that.

In Mexico, Congress was not interested in economy. President Carranza was, and he did not want any interference with his comptroller, so I changed it, but this does not represent my idea of what a comptroller ought to be here.

Senator SIMMONS. I am trying to get now what your idea is of what a comptroller ought to be here.

Mr. LILL. He should be appointed by the President, with the advice and consent of Congress, and removable only for cause by Congress. The comptroller should have exclusive jurisdiction over all matters relating to the audit and liquidation of all accounts of officers and employees charged with the receipt, disbursement, or custody of Government funds or property; over the liquidation of all debts and claims of whatever nature in favor of or against the Government and over all accounting procedures, the preparation of vouchers, and the inspection of the accounting books, records, and documents connected with the accounts of the Government.

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Senator SIMMONS. That would vest him with no greater functions than the several auditors now possess with reference to the departments to which they are assigned.

Mr. LILL. I can not answer that. I have made not study of their powers. Mr. Oakey is very familiar with that subject.

Senator SIMMONS. But you provide in there for an auditor to deal with auditing the accounts?

Mr. LILL. And keeping the accounts. I made the comptroller general down there the bookkeeper of the Nation as well as the auditor.

Senator SIMMONS. But do you make any provision in connection with the auditing system by which they would investigate the estimates, and advise the President, and through him the Congress?

Mr. LILL. Yes, sir. I conferred these powers upon him:

SEC. 20. To examine the interior organization, methods, and expenditures of the various departments, bureaus, and other branches of the Government for the express purpose of securing economy in disbursements and efficiency in the service, to make recommendations and suggestions regarding the annual budget of expenditures of the officers of such departments, and regarding the revenue and such recommendations and suggestions shall be forwarded to the President of the Republic that he may take such measures as he considers advisable.

Senator SIMMONS. Would you expect this bureau to perform the function which the Secretary of the Treasury now performs with reference to these estimates of the various departments?

Mr. LILL. No, sir; I think the Secretary of the Treasury should retain his present function, submitting the estimates to Congress. But you can not create an effective comptroller without giving him the power of investigation, and since he has practically everything in that line I conferred the additional power upon him of making a study of the estimates, with a view to cutting down the budget. He has no power to enforce his recommendations. His power was limited to submitting a report regarding what he found to the President and to Congress, and one copy to the head of the department.

Senator SIMMONS. You make no provision there for the investigation of these estimates and recommendation as the result of that investigation. The Secretary of the Treasury, as I understand, construes his functions in this particular as purely perfunctory, and simply receives these estimates from the various departments and transmits them to Congress. That is all he does.

Now, there are those of us who think those estimates ought to be thoroughly scrutinized before they come to Congress by somebody having authority to do that, and to make recommendations with respect to them, and as the result of these investigations reporting to Congress at the same time his reasons for eliminations, reductions, and recommended increases. I do not know whether I am repre-

The CHAIRMAN. Yes; I am very much interested in what you say. I think you and I are in very close agreement, Senator.

Mr. LILL. As I stated before, I do not think the Secretary of the Treasury should have the power to perform the duty of going into expenditures.

Senator SIMMONS. I know. I am not asking you about whether he ought to have it or not, but I am asking you, if, in your scheme there, you have provided any method by which we can secure a more thor-

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ough examination, or even some examination—we have none now—of these estimates with a view to advising Congress with respect to them.

Mr. LILL. No.

Senator SIMMONS. And giving us the reasons for whatever recommendations may be made, and the data upon which they are based?

Mr. LILL. No; except in this way. I gave the comptroller general the power to make investigations of the departments and report upon next year's budget. Those investigations were made during the year, as required.

Senator SIMMONS. Those have to do with the expenditures of the current year chiefly. That has nothing to do with the question that was uppermost in my mind, which is to have a thorough investigation made of these estimates before they are sent here, before they come here.

Mr. LILL. That, of course, to be effective, Senator, must be a congressional committee or officer of Congress. It is perfectly useless to impose upon the Secretary of the Treasury the duty——

Senator SIMMONS. That is what I supposed you had worked out, some more effective plan——

Mr. LILL. The estimates were made to the Secretary of the Treasury, and I happened to sit in when they were tabulated, and the employees went over them very carefully, and new activities were pretty well known and considered by the Cabinet before they were presented to Congress. I gave the Congress the most effective organization I could think of in this comptroller, by providing that he was required in his investigations of all these departments to report to Congress as to whether they were wasting money or spending money unnecessarily.

Senator SIMMONS. What would you think of this? Not disturbing at all the present power of the Secretary of the Treasury with respect to transmitting these estimates to Congress, what would you think of the establishment in the Treasury Department of a small bureau with an expert force, for the purpose of vesting that bureau or vesting the Secretary of the Treasury with the power, through that bureau, of thoroughly overhauling and investigating these estimates as they may come in from the different departments, and making his recommendations, accompanying those recommendations with the information that Congress ought to have, in order to enable it to determine whether his recommendations ought to be followed or rejected?

Mr. LILL. That goes back, of course, to the form in which the estimates should be submitted to congress, and the information required. Congress has always had the power to prescribe the form of the budget. Now, if you require that the budget be submitted to Congress in a different way so as to show more clearly the new activities, or the increase in old activities, it might be wise to give the Secretary of the Treasury a new force to do that work, but as far as giving the Secretary of the Treasury, or anybody under him, the power to go over the budget after it has been submitted by the departmental heads, and advise Congress as to the necessity for any of those things, I think it would be a waste of money, because if we had a budget commissioner or a bureau of the budget, or any execu-

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tive department, and they submitted a revised budget to Congress, it is inconceivable to me that the various appropriations committees of Congress would stop doing just exactly what they are doing now. It would not stop them from making changes.

The CHAIRMAN. Why should they stop, Mr. Lill? This as I see it, is merely combing the waste twice. I wonder if I may interject there that in doing some work for Secretary Glass in connection with this Pan American Financial Congress I have had occasion to look up the budget systems of all the Latin American countries. As far as I have been able to inform myself, with rare exceptions, the Treasury is charged with the responsibility of submitting the budget, but its powers vary.

In some instances it has the power of revision, as you were suggesting just now. In other cases it has none, except by implication, as the minister of finance meets with his colleagues. But you go south of the Isthmus, and very generally, if not universally, the minister of finance submits to Congress the budget of estimates both for revenue and expenditure.

Senator SIMMONS. What happens now is this. The Secretary of the Treasury sends in these estimates without any recommendation. He can not make recommendations because he has construed his powers to be merely those of transmission. The committees feel that they must have some definite information.

Mr. LILL. The mere fact that he submits the estimates, Senator, is a recommendation for their adoption on the part of the Executive.

Senator SIMMONS. Well, that is a perfunctory recommendation. It is based upon no investigation made by the Secretary of the Treasury, no individual opinion of the Secretary of the Treasury as to the right or wrong. I think he has made it perfectly clear repeatedly that he does not do anything except transmit them to Congress, but leaves it to the various committees of Congress to find out the best they can.

The CHAIRMAN. Senator, he has no choice, has he, other than to transmit the estimates, as laid on his desk by the Secretary of Agriculture?

Senator SIMMONS. That is what he has held, and repeatedly stated as what he regarded as the limit of his authority in the matter. He dumps these estimates here upon these committees, with nothing in the world except the recommendation of the head of the department of the Government. That is what it amounts to.

Naturally the committees want to know something more about them, and in order to ascertain something more about them it has become necessary for us to have in every Congress these long drawn out hearings.

The CHAIRMAN. In particular detail.

Senator SIMMONS. Yes; hearings open to witnesses from the departments, the outside public, and so on. Now, if you had a bureau in some department here, preferably, of course, the Treasury Department, whose duty it was to take these estimates and to study them and to transmit to the Congress at the time the estimates come up all the information that they have gathered with respect to these estimates, properly set out so it could be a matter of easy reference on the part of the committees, I think you would greatly reduce the

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work of the committees, and you would get very much better information and more satisfactory information than the committees get through these long drawn out hearings.

Mr. LILL. Well, the statement you make practically, as I understand it, amounts to this. The executive departments do not properly study their budget before submission to Congress.

The CHAIRMAN. That is not necessarily true; is it?

Senator SIMMONS. I have not said that all.

The CHAIRMAN. The impulse, Mr. Lill, of the efficient and zealous bureau chief is inevitably to expand the activities of his bureau. Let us say he is a specialist in the Department of Agriculture combatting animal disease, or acclimating plants. If he is any good he seeks to expand his activities.

Senator Simmons and I, and others of us, want to have somebody sitting permanently in judgment upon the wisdom of these estimates for expansion before they reach us.

Let me give you an instance. The Secretary of Agriculture, who is charged with his general responsibilities, reduced an estimate for a certain work in one bureau from $40,000 to $20,000. There is a mass of business going over his desk. His general estimates are transmitted by the Secretary of the Treasury. Some interested person induces the Agricultural Committee of the House to ask that bureau chief to come up and demand the restoration of the item which the Secretary has reduced, and it is restored. That goes on all the time. Am I not right?

Senator SIMMONS. Yes; and not only that, but the bureau chief gets interested in it and he comes here and he lobbies around among members of the committee, and then he gets some Senator that he is personally acquainted with to put in his oar, and finally he may induce the Secretary of the department to come up and urge and appeal for it.

You are not likely to get a reduction of expenditures through the recommendations of the departments. We are struggling here right now in an effort to reduce the personnel of some of these war departments that had connection with the war. Everybody recognizes that they have a larger force than there is any necessity for, and that there are a great many people in these departments who are practically doing no work at all, but just idling away their time trying to find something to do, and can not find it, and yet it is difficult to get the department to recommend their discharge or to discharge them.

Now, a bureau of the kind that I have been discussing and describing here prying into that department would discover those things, would be more likely to discover them, and more likely to bring them to our attention than the head of the department, upon the recommendation of the bureau chief who is interested in keeping his personnel.

Mr. LILL. I agree with you there, but that bureau would be utterly lost if it was attached to the Secretary of the Treasury or the President. It should be under Congress.

The CHAIRMAN. Well, the almost invariable practice among all the other civilized people in the world is to have that work done first in the Treasury.

Mr. LILL. Yes, sir; and to the extent that is true in South America it is true with us.

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The CHAIRMAN. It is true in Asia, it is true in Europe, it is true in Africa.

Mr. LILL. I say it is just as true with us here. The Secretary of the Treasury gets these estimates——

The CHAIRMAN. He has no power to revise them, Mr. Lill. He may not lay his finger on them.

Mr. LILL. Granting that he has the power to revise the estimates and reduce them, if his judgment does not coincide with the President's, the President has full power to demand his resignation, so you put it back on the President anyway.

Senator SIMMONS. The Secretary of the Treasury, when he acts in that capacity, would be acting under the power conferred upon the President, and not so much upon the power that he has as an individual member of the Cabinet. But these estimates have got to come to us through the President, or through the authority vested in the President or conferred by him upon some department.

Naturally he would confer that power upon the Treasury Department, because that is the financial, fiscal agent of the Government.

Mr. LILL. May I ask a question here in order to clarify this thing in my mind? Is it your thought that after the estimates have been submitted, say for this year, $4,800,000,000, that the Secretary of the Treasury should be endowed with the power to transmit them to Congress, with recommendations advising Congress that so much of this is unnecessary and so much in his opinion is necessary?

Senator SIMMONS. Not exactly that. The estimates from the separate departments will come to the Secretary of the Treasury, and those estimates are turned over, I will say, just for illustration, to this bureau that we are talking about. That bureau makes a thorough investigation and reports to the Secretary of the Treasury. The Secretary of the Treasury then transmits his report, based upon that, to Congress.

The CHAIRMAN. In one existing statute, Mr. Lill, the President is required to make these recommendations for the revision of the estimates after the estimates are completed, but, as you may imagine, the recommendations are never made. I conceive the purpose of this machinery is to enable the Secretary of the Treasury, as the estimates are in course of preparation, to warn, to remonstrate, and to persuade, in the interest of economy, and finally, if needs be, in some instances veto, before the estimates are ever finally completed, and if the Secretary of Commerce declines to accept the judgment of the Secretary of the Treasury, of course, he must have a final appeal, but as nearly as I can determine, the practice of other countries, and our own States where this system has been inaugurated, indicates that generally there is an accommodation of judgment between the secretary or the minister of finance, or whoever he may be, and the cabinet officer, so that only a few cases would go to the President. He is already the most overburdened public servant in the world.

We are trying, as I see it, to devise machinery which will permit the President to exercise his authority through a deputy properly equipped with the force to discharge that duty.

Mr. LILL. As I understand it, the Secretary of the Treasury has not sufficient force at the present time to do the work to the best advantage.

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The CHAIRMAN. Nor has he the legal authority.

Mr. LILL. To that extent I think it might be advisable to give him additional help, but referring back to your question, the estimates should be prepared, of course, in such form that they will give the information you want regarding the increase in new activities. That is true, is it not?

The CHAIRMAN. Have you read the bills pending before the committee?

Mr. LILL. Yes, sir. Therefore the form of the budget and the contents of the budget are absolutely in the hands of Congress, and the reason the budget is submitted in the present form is because there is a law in existence, passed when Mr. Taft wanted to submit a new budget, providing that after that year the budget should be submitted in the same form as in the preceding year.

You can pass a law providing that the estimates shall be prepared in any form which you prescribe, so you will get the information desired.

Senator SIMONS. If we establish a new system all of these old systems would have to give way to the extent that they conflict with the new.

The CHAIRMAN. Mr. Oakey, will you proceed in any way which is agreeable to you?

Senator SIMMONS. Let Mr. Oakey tell us in what capacity he appears, so we will understand his connections and qualifications.

STATEMENT OF MR. FRANCIS OAKEY, CERTIFIED PUBLIC ACCOUNTANT, 52 BROADWAY, NEW YORK, N. Y.

Mr. OAKEY. My address is 52 Broadway, New York. I am a certified public accountant and chairman of the budget committee of the American Institute of Accountants, of which Mr. Adam A. Ross, of Lybrant, Ross Bros. & Montgomery, is a member, and also Mr. Archibald Bowman, of Marwick, Mitchell & Co., both of those firms of New York.

I am at present acting general auditor of the Federal Reserve Bank of New York, and also a member of the firm of Searle, Nicholson, Oakey & Lill, certified public accountants.

My experience in connection with the budget consists chiefly as follows: I was chief accountant of President Taft's commission on economy and efficiency for two years, and I was expert accountant for the Isthmian Canal Commission to devise a system of accounting for the operation of the canal. I was chief of the special investigating staff of the New York Customs House under Collector Mitchell, and senior accountant for the New York Bureau of Municipal Research.

The CHAIRMAN. That is the one of which Dr. Beard——

Mr. OAKEY. Dr. Beard is now director. I was also accountant for the Republic of Mexico, and at the present time I am consulting accountant for the United States Bureau of Efficiency in Washington, also consulting accountant for the New York Bureau of Municipal Research. I think that about covers it.

The first thing that I would like to present to the committee is the fact that this question of establishing a national budget—in fact, a budget procedure—is nothing but an instrument, nothing but an

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arm to do something, and the thing we all want to do is to gain economy and efficiency—although I do not like those terms—in Government.

The budget for 1921 approximates $5,000,000,000, if I remember it. The corporations and individuals—in other words, the taxpayers of the country—are naturally desirous of reducing taxation as much as possible, so that it seems to me that all this consideration of the budget should be gone through with, with a consideration of the major thing that is to be done, namely, the cutting down of expenditures, without, however, limiting those activities which, in the judgment of Congress, should be continued.

That involves not simply the establishment of a budget procedure, which, in my opinion, is simply one little thing in connection with the problem. It is simply an instrument. It involves a tremendous constructive job which must be undertaken by a well-qualified organization of some character. Without a budget procedure I venture to say that the cutting down of expenses is impossible. I mean by that that if the Government of the United States continues under its present methods of estimating and passing appropriations, we can never hope to attain any efficiency in budget making, because at present we really have no budget.

The defects in the present system have been enumerated again and again, and I will not go into them to any great extent. The major defects are that at present there is no responsibility for expenditures in the National Government. I doubt if any taxpayer could tell you whether he holds the President or the Congress responsible for a particular expenditure which he may criticize.

Senator SIMMONS. Or the head of the department who may recommend it?

Mr. OAKLEY. He does not know enough about it, in the first place; and, in the second place, the means is not furnished him by which he can find out. The present Book of Estimates is an impossible document for the average citizen to get any information from. Further than that, since the executive branch of the Government takes no responsibility for its estimates and since the only thing that is done in the Treasury is the auditing of the Book of Estimates as it passes through, the present Book of Estimates does not become an administrative program in any sense. When it reaches Congress the estimates are, in the first place, distributed among a number of distinct and separate committees, so that there is no attempt at the present time on the part of Congress to make the consideration of those esimates one comprehensive plan.

Those, I think, are the defects that have been enumerated.

In connection with those defects a debate took place in the House in 1913 between Mr. Shirley, Mr. Cannon, and Mr. Fitzgerald. The gist of the defects in Congress, I think, were summed up at that time very clearly in a sentence by Mr. Shirley, in which he says: "No man can run his business, and no government can run the country's business, without having a program laid out in advance, and not simply to find out the route they have traveled after they have traveled it. Whether it comes from one committee or whether it comes from half a dozen committees, the trouble now is that there is no consideration by the House or the country of the whole scheme of

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appropriations and of totals. What we need in America is a debate which will focus public attention upon the total expenditures."

I think that in a few nontechnical words expresses the difficulties and defects that now exist.

Perhaps I should say, Mr. Chairman, that while the American Institute has a committee on the budget, the subject is so large that it may be that the opinions that I give here to-day are not entirely concurred in.

The CHAIRMAN. I undersand. That is to say they are primarily your own opinions and in a sense only——

Mr. OAKLEY. In a sense only the opinions of the institute.

Now, as to the kind of budget needed by the United States Government, that is something we ought to consider. There are several forms of budget. One is the executive budget, another is the legislative budget, a third is a budget prepared by an administrative board, and a fourth form is that prepared by an administrative legislative board. I do not want to go into the details of those things.

The CHAIRMAN. You will have to define those, especially the executive budget, because there is a widespread misunderstanding or want of understanding as to whether that implies a budget after the British fashion, of which no item may be changed by the legislature, or whether after the Argentine fashion, let us say, where it is submitted in behalf of the executive by the minister of finance, subject to change by the legislature.

Mr. OAKEY. I want to say that I think that during the discussion of the budget, and in connection with books and articles written on the budget, there has been altogether too much importance placed upon these terms that have been attached to various budgets.

That attitude has gone to such an extent that those who believe in an executive budget have almost formed a school, and those who believe in a legislative budget, on the other hand, almost form a school, the two schools being very much opposed to each other.

Perhaps, first, I should state my definition of what a budget is. A budget is a financial plan or program prepared for a definite fiscal period, and in advance of that period, including not only estimates of proposed expenditures, but also estimates of the means by which it is proposed to finance those expenditures.

That definition is a general one, and whether there is an executive budget or a legislative budget, or whatever kind of budget there is, it must conform to that definition if it is going to be effective.

The executive budget, as such, in my opinion, can not be adopted by the United States Government.

The CHAIRMAN. By that you mean that which is in vogue in——

Mr. OAKEY. In England.

The CHAIRMAN. In England and the British colonies?

Mr. OAKEY. That is the most marked form of executive budget. The most marked form consists of a budget over which the legislature has no power of reduction, and therefore such a budget becomes to that extent still more an executive program. That sort of thing, of course, I think we will all agree, is impossible in the United States, because the Constitution confers upon Congress complete power in respect to initiating appropriations and the raising of revenues.

I think for purposes of analogy we should abandon all these terms which are really nothing but terms, and consider what kind of a

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budget is needed for the United States, under our constitutional form of Government.

The CHAIRMAN. That is what I would like for you to do, without any terminology suggest to the committee the instrument which should first prepare the estimates.

Mr. OAKEY. Very well, sir, I will go right ahead.

The CHAIRMAN. If that suits you.

Mr. OAKEY. Surely. First of all, it is obvious that under our Constitution, if we are to have a budget, there are two important and distinct and entirely separate parts to be played in connection with it, one by the executive branch of the Government and the other by the legislative branch of the Government; and, in my opinion, neither of these parts can be curtailed or limited.

Either one of them can be developed, but you can not take away from Congress the power that it has with respect to the budget, neither can you take away from the executive branch the power which has been given to the Executive under the Constitution. Either of these, or both of these powers, however, can be developed, and probably should.

Therefore, with this in mind, the making of a budget for the United States, the budget should be, in my opinion, one which in its first stages consists of a collection of estimates prepared by the executive branch of the Government, and for which the executive branch will take full responsibility as a financial program or plan. By full responsibility, I mean that the estimates shall be submitted as one document by the President, following such an investigation, through agencies that may be established for him, as he may deem desirable; but after it reaches Congress this collection of estimates, instead of being divided up to constitute bills separately passed, should in some way be considered as one program.

The CHAIRMAN. Are you familiar with the French method of voting the budgeet by chapters and then as a whole?

Mr. OAKEY. To some extent; not in detail.

The CHAIRMAN. Would that be the procedure you would recommend?

Mr. OAKEY. I think probably it would. On this point of the procedure in Congress I do not think that my testimony is of much value. I do not pretend or assume to be an expert on parliamentary procedure.

The CHAIRMAN. I do not want to pursue the question any further.

Mr. OAKEY. But I do think it ought to be considered in Congress as one program and that it is up to Congress to decide what should be the machinery to do that. In order to establish such procedure, it seems to me that several important changes in our organization are necessary.

The CHAIRMAN. I assume that you believe that the financial estimates and the financial program submitted by the President should include revenue and expenditure?

Mr. OAKEY. I said that, Mr. Chairman, in my general definition of a budget.

The CHAIRMAN. I was not quite clear. Sometimes you nodded, and I was not quite sure that I understood you.

Mr. OAKEY. I would like to repeat that the form of budget that I am proposing, to be effective, must include on the one hand esti-

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mates of the proposed expenditures and on the other estimates of the means by which those expenditures are to be financed. In order to effect a procedure of this kind and a budget of this character it seems to me that several changes must be made in our present organization.

In the first place, it is obvious, as nearly everybody has brought out, that the President is not now equipped with any agency or arm of the service by which he can intelligently investigate estimates and review them before submission to Congress. Therefore some agency should be created which should provide the President with an officer, aided by a sufficient technical staff, qualified to investigate the estimates as they come from the departments and definitely pass upon their advisability before putting them up to the President. This agency should be an investigating body equipped with men of the caliber that is necessary to meet and consult with the heads of the big departments.

Mr. Chairman, your bill—or this bill that is before the committee—proposes a budget bureau in the Treasury. I believe that it would be more effective to establish a department under the President, not a bureau, but a department under the President.

The CHAIRMAN. A department of what?

Mr. OAKEY. A department of administration. At the head of that department I should like to see a Cabinet officer, with the title, "Secretary of Administration." My reasons for proposing this change——

The CHAIRMAN. Are you going to define and explain his duties?

Mr. OAKEY. I was going to go into that. This officer of this department should be charged with the duty, first, of investigating the work requirements of the various departments, bureaus, offices, commissions, boards, etc., that come under the executive branch of the Government, looking into their needs and their plans, and their means and facilities for carrying out those plans; consulting with these departments, bureaus, or commission heads, after they have submitted their estimates, to determine whether the estimates are justified, and if not, to try to come to some agreement with the various departments as to how they should be changed before submitted.

The CHAIRMAN. At your convenience, will you send the committee any precedents or analogies? Are there any Governments——

Mr. OAKEY. Well, that has some similarity, perhaps, to the British system, in some ways, but it is not the same thing at all.

The CHAIRMAN. Of course, while we know that in a sense we are undertaking to pioneer in this committee, nevertheless, if we can find any guidance in the experience either of the States of the Union or of other countries, we would be glad to know that this way has been traveled in part at least.

Mr. OAKEY. I would be glad to look that up, Mr. Chairman. My reasons for suggesting that we magnify this operation in such a way as to place it in the hands of a department under a secretary or Cabinet officer are these:

In the first place, as I conceive the problem, it is not a problem of simply changing the budget procedure or establishing a budget procedure and correcting defects in that procedure that now exists. It is a tremendous constructive problem that is not just directed to

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the next few years, but is directed to all future time as long as we have this form of government.

The CHAIRMAN. Let me ask you how would you reconcile, how would justify the separation of the duty to make the estimates for revenue from the duty to make estimates for expenditure?

Mr. OAKEY. I was coming to that, Mr. Chairman. The proposal to place in the Treasury the bureau to do this work seems to me not to meet the problem entirely. I think it would meet the problem partially. It would be a beginning, but in my opinion it would not be effective.

In the first place, the Secretary of the Treasury now has probably the greatest responsibilities of any Cabinet officer. If we think for a moment of all the various bureaus and activities that he now has to supervise, I think it is very readily apparent that he has all the executive responsibility that can reasonably be given to him.

The CHAIRMAN. You do not think he could be relieved by the transfer of those responsibilities to other departments?

Mr. OAKEY. I think not, sir. There are certain bureaus in the Treasury that have nothing to do with it, like the Marine Hospital Service, the Coast Guard, etc., but those are minor things comparatively. His main duties consist in supervising the customs service or customhouses, the Bureau of Internal Revenue, with the income tax and all the excess profits taxes, the Bureau of Engraving and Printing, all the subtreasuries, besides a large auditing force, which I will take up later.

It seems to me that the present responsibilities of the Secretary of the Treasury are sufficient for any Cabinet officer. Now, it is proposed to load upon him another responsibility, which, in my opinion, is greater than the responsibilities that now exist in the Treasury, namely, this huge constructive job that consists not only in supervising the budget procedure but in recommending to the President the policy of expenditure.

To do that job efficiently such a Cabinet officer would have to have on his staff professional men of high standing in nearly every line of endeavor.

The CHAIRMAN. The job of preparing the budget?

Mr. OAKEY. The job of investigating.

The CHAIRMAN. Of investigating for the purpose of preparing the budget?

Mr. OAKEY. Yes, sir. The objection might be raised that this would involve immediately an additional expenditure, whereas our purpose is to cut down expenditures. But I will call attention to the fact that the proposed estimates for 1921 are approximately $5,000,000,000, and I think the Government could well afford to spend, we will say, one one-hundredth of 1 per cent of $5,000,000,000 on an effort of this character in order to really get at the situation of the work of Congress in every department, so that the President can intelligently present a program to Congress each year. I think that responsibility is greater than the combined present responsibilities of the Secretary of the Treasury.

Finally, if this budget officer or this secretary of administration is to deal effectively with other Secretaries, other Cabinet officers, it seems to me obvious that he must have rank at least equal to theirs.

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The CHAIRMAN. You do not believe that it would be possible for the chief of a budget bureau in the office of the President, with rank less than that of a member of the Cabinet, to cope with them?

Mr. OAKEY. That is my feeling, Mr. Chairman.

The CHAIRMAN. You represent the same view that ex-Congressman Fitzgerald submitted to the committee very strongly.

Mr. OAKEY. I think he did present that view.

The CHAIRMAN. It would be impossible for a man of less rank than a member of the Cabinet to hold his ground against a determined Cabinet officer?

Mr. OAKEY. In connection with this procedure some means should be taken, and perhaps a law should be passed, to prohibit a department head or a bureau chief to solicit appropriations direct from Congress.

The CHAIRMAN. There is a provision looking to that end in the bill.

Mr. OAKEY. I know it is, but it has never been put into effect.

The CHAIRMAN. It is in this bill.

Mr. OAKEY. The law enacted should provide that all representations on the part of the executive officers should be taken up through the secretary of administration and in case of disagreement through the President.

In order to make any budget procedure effective in the United States Government, one of the first steps is the revision of the present accounting systems of the various departments, and I say that advisedly, because there are about as many accounting systems as there are departments and bureaus. There is no standardization, and I doubt if any department at the present time, or any bureau, could produce all the information that is required in a well-coordinated budget. There never will be a budget until the accounting systems are revised, and I venture to say that if the job of revision were undertaken to-day we would not have an effective budget for three or four years.

The CHAIRMAN. On that point, if we were to decide upon the principle embodied in the so-called McCormick bill, do you believe that we ought to undertake in that same bill to provide for the accounting and control of expenditures, or do you think that problem is so large that we ought to leave it for another bill?

Mr. OAKEY. I had not thought very much about that. The main thing I would like to see is machinery provided for going at this job. If it is advisable, from a legislative standpoint, to put it all in one bill, I would say go to it.

The CHAIRMAN. It is not a question of whether it is advisable from a legislative standpoint. We can wait to pass this bill, from a legislative standpoint, one year or two years. It is comparatively less difficult to provide new machinery for pruning the executive estimates than it is to provide new, intelligently coordinated machinery for accounting and for auditing and for the control of expenditures. Let us say this bill might be reported within a fortnight, but, obviously, the committee can not even master the significance of the 25 statutes affecting auditing and accounting in less than a month, and maybe two months. They can not be revised and codified until draftsmen have been at work for a month or two. That is the reason why I asked you to consider that, you being an accountant.

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As you know, the House bill, so to speak, changes the responsibility of the head of the present system, and detaches him from his subordination to the Treasury. If that were done, the Secretary of the Treasury would have to duplicate all the accounting which the law seeks to take away from him.

Mr. OAKEY. On account of the law he would have to.

The CHAIRMAN. Yes; and on account of the responsibilities still left with him.

Mr. OAKEY. I disagree with you on that, because I surveyed the procedure in the Treasury Department personally, as I was chief of the staff of the Economy Commission, and I disagree with you that the accounts have to be kept in the Treasury in duplication of what is kept in the departments, with one exception, and that is the appropriation accounts.

The appropriation accounts are only one group. They are the smallest group. There are innumerable other accounts that are required for administrative purposes, and that are required for the budget. Those accounts could be put in by executive action right now without any law if the executive department really wanted to do something in this connection.

For instance, at the present time I doubt if any department could present an intelligent and complete and accurate analysis of its expenditures, except according to the appropriations, but an appropriation of a million dollars, we will say, for mine rescue work, in the Bureau of Mines, in order to be effectively administered, must be analyzed to ascertain what the money is being or has been spent on.

At the present time, as far as I am informed, having worked recently in the War Department, for example, there is no adequate, complete, accurate, and proper analysis of expenditures presented to the department heads, or even to the bureau chiefs, simply because the accounting systems are incomplete and not up to date, not what they should be. There is nothing in the law to prevent a bureau chief, with the approval of the Secretary of the department to which he belongs, from installing a good analysis of expenditures. He can do that right now.

The CHAIRMAN. I wonder, Mr. Oakey, if it will be too much to ask you to make a little brief of what you think we ought to do in the matter of creating a comptroller general.

Mr. OAKEY. I am coming to that.

The CHAIRMAN. I beg your pardon.

Mr. OAKEY. Perhaps I have said enough about a revision of the accounting system. Having examined most of the systems in Washington, with the exception of the Post Office Department, and having installed the present system on the Canal, and investigated particularly the accounting procedure in the New York Customs House, I feel fairly well qualified to say that those systems are not adequate either for administrative purposes or for a budget, and they need revision, and that is one of the first steps we must take if we are going to have a budget.

The CHAIRMAN. How long will it take?

Mr. OAKEY. I estimate it ought to be done by highly qualified people, rather than a large number of semiqualified people, and therefore I would rather see it take three years than attempt to do it in one year with an enormous force. I would rather put a dozen first-

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class men to work on it, with the hope that in three or four years they could do something, than to put 100 men of less caliber on it immediately.

I think that the accounting work, and I might say that in this I differ slightly from Mr. Lill who preceded me, that the actual keeping of the books is an executive matter. I think that the administrator in charge of a department should have the duty to decide what kind of analysis of expenditures he needs in order to intelligently administer his affairs. I think the power to prescribe those methods that relate to financial administration should be lodged in the executive branch of the Government.

The auditing, on the other hand, is an entirely different responsibility, and I think that the auditing department, which now consists of the Comptroller of the Treasury and his subordinate officers for the various departments, should be taken away and be separated from the influence of any executive officer; in other words, be a different executive branch of the Government as far as possible.

Therefore I think that we should establish an auditor general, appointed by the President, with the advice and consent of Congress.

The CHAIRMAN. You can not do that, you know. It must be with the advice and consent of the Senate.

Mr. OAKEY. That is right, and removable only with the consent of the Senate.

The CHAIRMAN. I do not know whether we can do that.

Mr. OAKEY. If there is any way of doing that, I would like to see it done.

The CHAIRMAN. You want, Mr. Oakey, to create an auditor general as independent of the heads of the executive departments as we can make him under the limitations of the Constitution?

Mr. OAKEY. Exactly, as independent as it is possible to make him; and I would take away from him the authority that the present comptroller now has but does not exercise, or only exercises to a certain extent, which I will explain in a moment, of prescribing methods of accounting.

The CHAIRMAN. Would you have an accountant general, or something of that kind?

Mr. OAKEY. That, I think, would be the function of this department of administration that I have suggested, with this exception, that it is obvious that the auditor general must have the vouchers and pay rolls and supporting documents in such shape that he can audit them; so these documents that relate to the process of audit of an auditor general, with the data by which he passes upon the facts and upon the transactions, must be under his jurisdiction in respect to their form, and content, and so on, but all the other accounting forms and analyses of expenditures and revenues, ledgers, registers, etc., I think, should be prescribed by the executive branch of the Government, through its department of administration.

I would also give the auditor general or comptroller general power to follow up or supplement his audit by making independent investigations, with the idea that his investigations will be primarily for the information of Congress and independent of any investigation that the administration might make through their department of administration.

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In other words, when a bureau chief comes to the Appropriation Committee hearing he is examined through a long process, and his evidence is ex parte evidence to start with, and the committee must depend largely upon what they are told by this interested officer.

It is true that many of the committee members have an intimate knowledge of particular departments and bureaus and, perhaps, are more equipped in that respect than you might think to go into this subject; but I would like to see the hearings on appropriations reduced so as to relieve the work that is now loaded upon Members of Congress and Members of the Senate in connection with examining executive officers with respect to their appropriations, and the way to do that, I think, is to provide Congress with some investigating body or agency that can go into the departments and look up the special points that they are particularly interested in. I think those investigations should be made in a manner entirely independent of executive control, it being understood throughout by the establishment of a department of administration that the Executive would be provided thereby with his own investigating body, so that he, himself, could present an intelligent, well-coordinated financial program every year.

STATEMENT OF MR. ADAM A. ROSS, OF LYBRANT, ROSS BROS. & MONTGOMERY, PHILADELPHIA, PA.

Mr. Ross. I am a member of the committee on the budget of the American Institute of Accountants. I have nothing to add to what Mr. Oakey has so well said, and I indorse very heartily his remarks on the matter before the committee.

The CHAIRMAN. I have here some correspondence which, with the consent of the committee, I would like to have incorporated in the record.

(The matter referred to is here printed in full, as follows:)

CHAMBER OF COMMERCE OF THE
UNITED STATES OF AMERICA,
Washington, D. C., December 29, 1919.

Hon. MEDILL MCCORMICK,
United States Senate, Washington, D. C.

MY DEAR SENATOR: At the hearing accorded a representative of this chamber before the Senate committee on consideration of a plan for a national budget system, referring to the report of the chamber's special committee containing principles of a national budget system, you stated that certain members of the committee had advised you "that the report was published and the conclusions reached without their knowledge; that their names were used while they were uninformed as to the policy adopted by the chairman and some other members."

According to your assertion, the Chamber of Commerce of the United States would be placed in the position of having issued a report in which it used the names of several individuals without their authority and without their knowledge. As the records of the chamber are perfectly clear and conclusive, and you have been misinformed, we request that you insert in the record of the hearings the following statement of fact:

As stated to the committee, the position of the chamber in regard to a national budget system is based on the first referendum ever held by the chamber, issued November 30, 1912, in which the vote was 573 in favor of the plan and 10 opposed.

Since that time the chamber has had a committee on budget and efficiency appointed to advocate in all proper ways the adoption of the principles to which the chamber is committed. The personnel of the committee has changed from time to time. As at present constituted it consists of the following: W. L.

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Clause, chairman, Pittsburgh; Paul W. Brown, St. Louis; C. K. McClatchy, Sacramento; W. H. Cowles, Spokane; Frank J. Goodnow, Baltimore; Herbert G. Stockwell, Philadelphia; George G. Tunell, Chicago; W. F. Willoughby, Washington.

On February 21, 1918, the committee met in Washington and adopted a report of progress which was submitted to the entire chamber at its sixth annual meeting held in Chicago, April 10, 11, and 12, 1918. In this report the committee, among other things, restated the chamber's position by recommending passage by Congress of a bill which would authorize the President to prepare and submit to Congress a budget and advocated the appropriation by Congress of funds sufficient to enable the President to provide himself with a staff required for the performance of this work.

This report was personally approved by Messrs. Clause, Goodnow, Willoughby, Brown, and Stockwell, who were present at the meeting, and also by Messrs. Cowles and Tunell, who authorized by letter the use of their signatures to the report. The remaining member of the committee, Mr. McClatchy, did not attend the meeting. He did, however, acknowledge receipt of a copy of the report, but failed to make any comments thereon.

Thereafter, on May 28, 1918, the committee met in Washington. At this meeting there were present Messrs. Clause, Willoughby, Stockwell, Tunell, and Goodnow.

At this meeting the principles contained in the referendum of 1912 and in the report of February 21, 1918, were restated. The memorandum containing this restatement of principles was subsequently revised and the revision submitted by letter to all the members of the committee. As the result of the committee meetings and of correspondence, the principles in the report of April 18, 1919, have the approval of all the members of the committee, with the exception of Mr. C. K. McClatchy, of Sacramento, from whom no reply was received, presumably because he was away from home.

The above statement is taken from the written records of the Chamber of Commerce of the United States and shows that, with the possible exception of Mr. McClatchy, all the members of the committee knew of the conclusions contained in the reports and were informed as to the policy "adopted by the chairman and some other members" and that the use of their names was specifically authorized by them. Mr. McClatchy has had directed to his address complete advice of all actions and reports by the committee, has never dissented from any of them, and as late as July 10, 1919, consented to continue to serve as a member of the committee. Respecting Mr. McClatchy, there has been no misrepresentation of any sort upon our part; having failed to receive his explicit authority, we have attached his name to no reports of the committee.

Very truly, yours,

D. A. SKINNER, *Acting Secretary.*

NATIONAL CIVIL SERVICE REFORM LEAGUE,
Washington, January 5, 1920.

COMMITTEE ON THE CONSIDERATION OF A NATIONAL BUDGET SYSTEM,
United States Senate, Washington, D. C.

GENTLEMEN: On behalf of the National Civil Service Reform League, I would respectfully urge that you do not report favorably in its present form Senate bill 3476, introduced by Mr. Keyes, to provide for the establishment of a national budget system, and for other purposes.

Section 3 of the bill provides that "all employees of the bureau except those receiving an annual salary of $5,000 or more shall be appointed from a list of eligibles to be supplied by the Civil Service Commission, in accordance with the civil service law and regulations."

Under section 5 of the bill these employees, not more than 10 in number, would have it as their duty "to establish relations and maintain regular contact with the financial administration of one or more specified departments. An officer so designated shall be financial adviser to the director for the department with which he is in contact and may, upon the request of the budget officer of such department, act as adviser to such officer."

Section 3 of the bill would except from competitive examination all persons receiving a salary of more than $5,000 per year and who may act as advisers

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to such heads of departments. These positions would require persons of high technical and expert qualifications; persons well trained in the functions of this new bureau. These appointees should be part of the permanent staff of these bureaus, so that upon a change of administration there will at all times be a sufficient number of experts in the department to continue the work of the bureau after a change of administration.

These positions are not of a policy determining character. Persons holding these positions must necessarily be financial or legal experts, or require qualifications of a similar high order. If upon a change of administration both the directors, acting as heads of the various departments, and these technical experts are removed, there will be left no persons in the respective bureaus who would be competent and qualified to carry on the work of these bureaus. All the time spent by these experts in studying the new bureau will go for naught upon each change of administration, for unless these positions are under the merit system they will be political appointments and patronage.

It will require a great amount of time and training to acquaint these appointees with the work of this newly created department of the Government. To permit wholesale changes among this class ef employees will interfere with an efficient administration of this new department and delay the work of this bureau.

Appointment of highly qualified technical and legal experts is now advocated by all the leading civil-service commissions. In New York, Pennsylvania, and Illinois, particularly, positions paying as high as $6,000 to $10,000 per year are filled through competitive examination. Among such positions are positions in many respects similar to the positions provided in this bill, such as chief accountant, Department of Finance ($8,000); chief of staff, Commissioner of Account's Office ($6,000); chief engineer, Department of Finance, who approves all contracts ($6,500). In the Department of Justice of the Federal Government, assistants to the Attorney General, positions paying considerably more than will be paid to the technical experts provided by this bill, have been filled through competitive examinaion conducted by the Civil Service Commission. That competition for high-grade positions is practicable is no longer questioned.

One of the outstanding features of the British treasury system and one of the things which makes it work so well is its permanent force of employees, headed by a permanent secretary and principal clerk, who operate under the chancellor of the exchequer.

We would respectfully request that you would amend this bill to provide that all of the employees of this new department or bureau be filled in accordance with the civil-service rules and regulations. If there is opportunity, we should be glad to place further argument in the nature of examples of the practicability of competition for these positions before your committee.

Respectfully, yours,

H. W. MARCH, *Acting Secretary.*

INSTITUTE FOR PUBLIC SERVICE,
New York City, December 19, 1919.

Hon. MEDILL MCCORMICK,
Chairman Senate Committee on Budget, Washington, D. C.

MY DEAR SENATOR MCCORMICK: Complying with your request at yesterday's hearing, the Institute for Public Service sends herewith a memorandum which embodies certain suggestions which it hopes your Committee on Budget will consider in drafting a final bill. We include also two or three suggested wordings of clauses to modify or to supplement clauses in various sections of the McCormick bill.

Before taking up by sections the questions and suggestions which we are venturing, we wish to congratulate you individually and as chairman of the Senate Committee on Budget upon the conviction which you have repeatedly expressed, that early budget action is both desirable and possible, that long steps forward are preferable to short steps, and that the basis of adequate budget reform is proper study of the Nation's needs and of departmental estimates.

1. In section 2, will you exempt at least the two assistant directors from appointment by the President and give their appointment to the Director of the Budget Bureau? As the bill now reads, responsibility would rest with

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the Secretary of the Treasury, who would be compelled to work through a budget director and two assistant directors not of his own choosing. At the same time the budget director would be working with and depending for his success upon two assistant directors not of his own choosing.

Experience shows that this form of organization fosters independence and conflict when not disloyalty. This is almost certain to happen when, as in this case, the two assistant directors receive only $1,000, or 10 per cent less than the director.

2. Section 3, line 24: Will you consider the striking opportunity which is presented to strengthen the proper application of competition above a minimum standard of qualification by requiring that those employees who receive $5.000 or more shall also be appointed from a list of eligibles or shall at least be declared eligible after selection by the director? The latter form is frequently used in applying civil service and is analagous to the customary requirement that choice of President or Governor shall be approved by the Senate.

Unless you follow this suggestion, are you not right at the outset making the budget director the target for importunity from personal and political friends; and protegés of friends, and fostering a policy that will treat these ten $5,000 posts as sinecures?

Alternative suggestion, line 24: Strike out "or more" as the preceding lines prohibit paying more. Page 3, line 2: "; employees receiving an annual salary of $5,000 shall be appointed if after nomination by the director they are certified by the Civil Service Commission as possessing the qualifications of personality, ability and experience requisite for the service for which the director would appoint them."

3. Section 4: Instead of asking the head of each department to designate a special budget officer and special assistant, will you please consider rewording this section to the effect that the head of each department shall, on or before July 1 in every fiscal year, call upon the appropriate officers in his organization to prepare or have prepared for all subdivisions all budget estimates, including supplemental and efficiency estimates for each organization unit and for the department as a whole? As this section now stands department heads will be urged to construe it and will be tempted to construe it as calling for at least two new functionaries as fifth and sixth wheels in each unit's organization whereas proper educational and administrative use of this budget opportunity requires that the program maker and pace maker within each unit shall be called upon to make the estimates for his unit. By looking to the officer whose logical business it is to say what is needed next year to do work planned for next year, you strengthen the organization and put a premium upon having a man at the head of each unit who is competent to make the work program and spending program.

4. Section 5: Where now this section provides that each of the $5,000 employees shall be detailed "to establish relations and maintain regular contact with the financial administration of one or more specified departments" and not only to act as director for the department of which he is in contact, but also to act as advisor to the budget officer of his departments, will you consider striking out this section entirely? In fact, it might be well to state in the law that the budget director shall not do what this section suggests and what experience indicates would soon make of these special officers so many councils to departments whereas they should be analysts and critics for the budget director. It would be most unfortunate to have a budget officer taking the place of department heads in outling work programs and budget estimates for departments. The temptation to "pass the buck" would be too strong. It would be fatal for the budget officer to be reviewing the proposals of his own advisors instead of being free to blue-pencil and to have their help in blue-penciling proposals of departments.

5. Section 9: As it now reads would largely defeat the main purpose of the budget bill because it requires a department to receive the formal written sanction from the Secretary of the Treasury before the department can include in its budget estimates proposed increases for old services or additions for new services. Obviously the Secretary of the Treasury will have no fact base for granting or withholding sanction until after his budget division has studied them. Would it not be a mortifying position for a cabinet member to be seeking as personal favors the right to state in budget estimates that at this or that point his department is unable to do what the country needs to have done?

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Suggested alternative: "That all budget estimates calling for an increase of expenditure either to do new work not provided for in the current appropriation or make more liberal provision for work included in the current appropriation act for the same item shall clearly set forth in separate columns the amount of the increase and the reason for requesting it." If it is desired to hold the Secretary of the Treasury personally responsible for all such increases, the additional sentence might be added: "Before such increases are incorporated in the final estimates to be submitted by the Secretary of the Treasury to the President and to Congress they shall be separately approved in writing by the Secretary of the Treasury." This seems to us a needless provision which would be observed more in the breach than in the performance.

6. Section 12: The complete exemption of pork barrel estimates, i. e., estimates for river and harbor improvements from even budget scrutiny before they come to Congress we feel would be a terrific disappointment to the country. While it is true that the public generally has greatly exaggerated the amount of money involved in the term pork, it is also true that 10 people want a budget in order to stop the pork barrels (in other districts than their own) for one who wants to have the scientific principle applied to budget making for the Bureau of Education or the Public Health Service.

If there are tactical reasons for excluding river and harbor improvements from action by the budget bureau, will your committee at least consider requiring that the budget bureau shall investigate all river and harbor improvement proposals, and make recommendations? While these findings of fact and recommendations would not be in the budget bill, they would at least be before Congress and the public when the river and harbor bills were under consideration.

7. Section 13, line 2, alternative wording: "Any head of a department whose budget estimates have been changed by the director of the budget bureau may have a hearing with the budget director before the tentative budget is submitted to the Secretary of the Treasury; may have a hearing with the secretary before final action by him; and may appeal from the decision of the secretary to the President for final decision."

Unless such provision is made specifically, there will be a tendency to use the blue pencil without proper field investigation and without the sense of responsibility which comes where the blue penciler and the officer whose work program is cut may confer with the department's more intimate knowledge and the budget reviewer's special knowledge before them.

8. Section 14: It is quite a shock to find the Army and Navy budgets exempted from the McCormick bill. This would be a serious matter if the budgets of these departments had not been inflated to cover war needs. Taking inflation out of any department is a mighty hard job, but taking inflation out of the War and Navy Departments is herculean. Nothing can do this so easily as to place them unequivocally under the analysis of the budget bureau. The country expects it. We believe it will be easier to get a budget bill that puts these two big services in than one which leaves them out.

Again, why is it necessary to exempt the Supreme Court and the legislative branch of the Government, including the Library of Congress, from at least the scientfic analysis and frank recommendation of the budget bureau? There are constitutional and logical reasons for not giving anyone a blue pencil to wield over Congress and the Supreme Court. In fact, these special services themselves are entitled to know what only budget study will disclose regarding the urgency or the prodigality of estimates for the legislative and judicial branches.

9. Section 15, line 21, now makes it necessary to secure authorization from the Secretary of the Treasury before books and records can be seen by the director of the budget bureau or any of his assistants or employees. Suggestion: Strike out the phrase, line 21, "when duly authorized by the Secretary of the Treasury" and insert "when duly authorized by him."

10. Section 16: Instead of continuing an obsolete method of dealing with the District of Columbia by setting an arbitrary limit to the estimates which can come in for that District, i. e., not greater than twice the estimated revenues of the District, etc., will you not consider eliminating entirely this section? If you do this, then you can get estimates that will tell the truth about what the District of Columbia needs. Congress, if it wishes, can comply with existing law and strike out down to twice the estimated revenues of the District, but Congress would then have before it the whole truth about what ought to be done by the District and to use that truth through the District Commissioners to help the people of the District consider whether their revenues are what they ought

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to be for the work needed. The United States can not afford to go on allowing the District of Columbia to discredit the whole country by its failure to supply adequate school facilities and other failures to conform to minimum essentials of municipal management.

11. Section 17: In these excellent requirements for comparative statements there is nothing now which requires that the budget architects shall set up the result of the comparison so that the budget director and the Secretary of the Treasury and congressional committees shall be able at a glance to see the meaning of the comparisons.

Will you consider one or two alternative rewordings which will provide for showing the differences which result from comparisons in separate columns, e. g., line 10: "A comparative statement showing in a separate column for each item and for the total," etc. Line 22: "Comparative figures for previous years showing differences in a separate column." We wish you would go so far as to require a comparison of each estimate with the totals either for the preceding administration or for the preceding Congress. Politically this country thinks in terms of administrations or Congresses. There is no special significance of comparison year with year. Our pledges are made in quadrennial platforms. Our campaign fights are made over results within four-year periods. Would it not help clear thinking and faithful performance if, while getting these estimates, we took as our base for comparison and separate showing in a special column the actual expenditure or the appropriation for the last year of the preceding administration, or preceding Congress if that seems wiser.

In conclusion, may we venture to express the hope that if an issue arises between the two Houses of Congress as to whether such budget work as is projected in the McCormick bill shall be done by a budget bureau subordinate to the Secretary of the Treasury or by a budget bureau in the President's office, the Senate leaders will insure budget action and the appropriate budget program, even if the concession to the House must be made by placing the responsibility in the President's office? After all, the work is to be done almost entirely by the new staff. The President will be held responsible for the result. In either case will the President give his personal attenion to details. In both cases he should give enough attention to justify his sponsoring the result of his administration's working program. There is no reason why we should ever have a President so busy with other matters that he can not know what working program is proposed by his Cabinet and what that program would cost.

Yours, very truly,

INSTITUTE FOR PUBLIC SERVICE,
JULIUS H. BARNES, *Chairman.*
WM. H. ALLEN, *Director.*

The CHAIRMAN. If there is nothing further, the committee will now adjourn.

(Whereupon, the committee adjourned to meet at 10.30 o'clock on Wednesday, January 14, 1920.)

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NATIONAL BUDGET.

WEDNESDAY, JANUARY 14, 1920.

UNITED STATES SENATE,
COMMITTEE ON A NATIONAL BUDGET,
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to adjournment, Senator Medill McCormick (chairman) presiding.

Also present: Senator Simmons.

The CHAIRMAN. Will you give your name, Senator Mills, for the record?

STATEMENT OF MR. OGDEN L. MILLS, REPRESENTING THE NATIONAL TAX ASSOCIATION, NEW YORK, N. Y.

Mr. MILLS. Ogden L. Mills.

The CHAIRMAN. Were you formerly a State senator?

Mr. MILLS. I was formerly a State senator, and am representing the National Tax Association.

I do not know whether you want me to cover the statement in a general way which I prepared, Senator. You know all about the National Tax Association. I understand you are a member yourself. But, for the benefit of Senator Simmons, it is an organization which was formed in 1906, with the idea that the men who were interested in taxation in the association would use their influence to promote better tax legislation primarily in the States. To-day the organization has among its members every tax official in every State in the Union and the possessions of the United States, the provinces of Canada, and some European countries. It also includes the leading organizations of our universities, the leading municipal tax experts, and I think it is probably the strongest and most active tax body in the country, and they have succeeded in accomplishing some very substantial reforms.

Of course, they have had to consider the other side of it, the fact that the expenditure of money in a wise and businesslike way goes hand in hand with the raising of money in a scientific way and a proper apportionment of taxes, which has led them to appoint a committee on the budget, and to ask me, as chairman of that committee, to appear before your committee and to state our point of view in a general way.

I have here a prepared statement which it is not necessary to read or to go into in detail.

The CHAIRMAN. The statement will be printed in the record.

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(The statement referred to is here printed in full, as follows:)

ARGUMENT OF OGDEN L. MILLS BEFORE THE UNITED STATES SENATE COMMITTEE ON BUDGET, WEDNESDAY, JANUARY 14, 1920.

The National Tax Association, organized in 1906, has since that time been consistently, studiously, and quietly engaged in building up an organization of persons who, by experience and training, and through a disinterested desire to promote the public welfare, are able and willing to devote time and thought to the fundamental prerequisites of a proper apportionment of the burden of taxation. Starting with a very few members, it has gathered strength and support until now it numbers among its members the State taxing officials of every State in the Union, the possessions of the United States, the Canadian Provinces, and of several foreign countries. Its membership also embraces numerous municipal taxing officials, the leading economists specializing in public finance at the universities, and a large number of public-spirited individuals, including lawyers, business men, State executives, Members of Congress and of the various State Legislatures, and organizations or associations interested in the development of a sound, effective and responsible administration of the tax laws. I understand that we are honored by having among our members the chairman of this committee and at least one member of the corresponding committee of the House.

From the start, the association has urged and realized that the matter of apportioning the burden of taxation, with its ever-increasing demands, must be accompanied by a corresponding careful and effective control of the disposition of taxes. Believing that to do away with public distrust, dissatisfaction, and complaint it is essential that the people should know not only that their taxes are sound, just, and fairly apportioned but also that there is an intelligent distribution of revenue carried out in a businesslike and thrifty way.

It is generally conceded, and therefore unnecessary to dwell on, that our present system of estimating the financial needs of the Government, of making appropriations therefor, and of reporting expenditures, is unscientific, lacking in uniformity of classification, and incapable of giving to Congress, the President, or the people a picture of the financial status of Government, either in respect of the past fiscal year, or of the needs of Government for the coming year. It is also generally admitted that the remedy for this state of affairs is to be found in the establishment of what is known as the budget system. A budget is the instrument through which the several operations involved in the administration of the financial affairs of the Government are correlated, compared, and brought under examination at the same time.

"It is at once a report, an estimate, and a proposal. It is the document through which the Chief Executive, as the authority responsible for the actual conduct of governmental affairs, comes before the fund-raising and fund-granting authority, and makes full report regarding the manner in which he and his subordinates have administered affairs during the last completed year; in which he exhibits the present condition of the public Treasury; and, on the basis of such information, sets forth his program of work for the year to come, and the manner in which he proposes that such work shall be financed."

Practically all of the essential features of a sound budget system are to be found in the McCormick Bill and, to a lesser degree, in the Good Bill, and it is therefore unnecessary to take up the time of the committee in presenting these essentials with which you are all so familiar. May I, however, make one suggestion in so far as the report feature of the budget statement is concerned?

Mr. W. E. Willoughby suggests, on page 8 of his book entitled "The Problem of a National Budget," that the financial statements should be accompanied by the administrative reports of the Chief Executive, the heads of departments, and other officers in charge of the several services of government. The suggestion seems to me to have considerable merit. Of course, as he points out, the financial statements contained in the budget give and can give but the bare figure showing the financial results of the operations, and in order that their significance may be seen it would seem to be essential that they should be accompanied by statements showing the results in terms of work accomplished or to be accomplished, the necessity or utility of such work, the problems that have had to be met, the methods that have been or

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will have to be employed, etc. In other words, these administrative reports should furnish the means through which the figures are to be interpreted and may be understood.

One of the most important questions which you have to decide is where the budget bureau is to be placed. The Good bill places it directly under the authority of the Executive, while your bill, Mr. Chairman, places it in the Treasury Department. On this particular point I do not feel justified in speaking for the National Tax Association, but according to my personal view, I very much prefer the plan proposed in the Senate bill, provided that the many administrative duties of the Secretary of the Treasury, other than those connected with the collection of revenues, can be divorced from his department. I base my opinion on the following reasons:

First, it is logical and proper that the Secretary of the Treasury, as the chief financial officer of the Government, should be the real budget chief, and, in my judgment, no man holding an office lower than that of a Cabinet officer will be able to effectively cope with other Cabinet officers and the various departmental and bureau heads. It is idle, of course, to expect that the President himself will have sufficient time at his disposal to give his personal attention to the departmental controversies, many of which will be as to matters of detail, and I am afraid that a mere bureau chief, unless he is a man of very strong character, will only too frequently give way before the insistent demands of the Cabinet officers. If this should happen your whole system will break down, because Congress will begin to lose faith in the budget as submitted, believing that it does not represent the needs of departments pruned to bedrock, but contains the old abuse of excessive estimates and demands.

While the test was not a fair one, we had some experience along these lines in New York, when a so-called executive budget was attempted, though I do not want you to understand that it was in any way a genuine attempt to set up a real budget system. There the budget was prepared by clerks in the office of the governor. It was known that the governor himself gave very little personal supervision to the revision of the estimates submitted by the departments and, as a result, we in the legislature knew that those estimates would have to be gone over with the same degree of care to which they would have had to be subjected had they been submitted directly by the departments.

In the second place, if you put the budget bureau immediately under the Executive, you divorce the two essential parts that go to make up a complete budget. It will be the primary duty of the director of budget to prepare and submit the estimates as to the financial needs of the Government for the ensuing year, while the function of drafting plans for providing the means with which to satisfy those needs will remain the responsibility of the Secretary of the Treasury. In other words, you place the responsibility for estimating expenditures in one man and the responsibility for formulating and submitting suggestions for necessary revenue measures and desirable taxation reform in another man, unless, of course, you mean to deprive the chief fiscal officer of the Government of what should be one of his primary duties. It is almost essential that the consideration of the needs of Government should not be divorced from the consideration of the means at hand and the new measures necessary to meet those needs. That revenues and expenditures should balance every year is but a sound business proposition. This is almost invariably true of Great Britain, where responsibility is located in a single head, and invariably untrue in this country under our existing system.

"For every fiscal year from 1866 to 1893, inclusive, there was a surplus of receipts over expenditures. During this period of 28 years the surplus of receipts over expenditures totaled $1,920,205,013.41. For the fiscal years 1894 to 1899, inclusive, the expenditures exceeded the receipts in the aggregate of $283,022,991.14. For the fiscal years 1900 to 1904, inclusive, the surplus of receipts over expenditures aggregated $310,319,165.04. For 1905 the expenditures exceeded the receipts by $18,753,335. For the fiscal years 1906 and 1907 the receipts exceeded the expenditures by $156,733,047.85. For the fiscal years 1908 and 1909 the expenditures again exceeded the receipts by $78,776,622.30. For the years 1910 to 1914, inclusive, the receipts exceeded the expenditures by $149,024,404.27. For 1915 the expenditures exceeded the receipts by $33,488,931.53. For 1916 the receipts exceeded the expenditures by $55,171,553.59, and for 1917 there was a deficit of $29,724,864.73.

"From 1866 to 1917, inclusive, the receipts exceeded the expenditures for each year, with the exception of 1894, 1895, 1896, 1897, 1898, 1899, 1905, 1908,

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1909, 1915, and 1917. The total amount by which the expenditures exceeded the receipts for these 11 years just named is $443,766,744.70. For the 52 fiscal years 1866 to 1917, inclusive, the receipts exceeded the expenditures in 41 years, the total of such excess for that period being $2,591,453,184.16."

Moreover, with the increasing burden of taxation, not only Federal but State and municipal; with the increasing reliance of the Federal Government on direct taxes, and its consequent invasion of the resources of the States; with the increasing complexity of the whole tax problem, due to our Federal system of government, it seems to me highly desirable to make the Secretary of the Treasury in every sense the chief fiscal officer of the Government, placing upon him the responsibility not only of supervising expenditures but of studying our entire taxation and revenue system, with a view to removing injustices, unsound measures, and making suggestions to Congress for the establishment of a sound, well-rounded system.

I should like to make one or two further suggestions. Referring to section 4 of the McCormick bill, it seems to me that the budget officer in each department there provided for might better be appointed by the budget director, the appointment, of course, to be approved by the head of the department. If he is appointed by the department head, it is difficult to see how he could exercise effective supervision over the preparation of the estimates of that department. He must and will be guided by the wishes of his superiors. If, however, he is appointed by the budget director, he will be the eyes of the director in so far as that particular department is concerned, will be in a position to furnish most valuable and needed information as to its needs, and will exercise a wholesome check on the desire to spend on the part of the department and its various administrative units.

It seems to me also that each House of Congress should have a representative in the office of the budget director, who could act as adviser to the House and Senate committees when the budget comes before them for consideration. Otherwise, they will necessarily become involved in the consideration of a great number of details, instead of devoting their time to matters of policy and major importance. I, of course, do not know what happens in practice in Congress, but I do know that when I served as a member of the Finance Committee of the Senate of New York State, the time of our chairman and of the members of the committee who attended the hearings was almost wholly taken up with the consideration of increases in individual salaries and the adding of a comparatively small number of officials to the various departments and bureaus. To me it was an appalling example of an unbusinesslike system that one of the most responsible and experienced members of a legislative body should spend most of his time in deciding whether the salary of a stenographer should be increased $5 or $10 a month, and should become so lost in the multitude of similar details that he was unable to devote the necessary time and attention to the financial policy of the State. And a cure for this evil, if it exists here in any way to the same degree that it existed at Albany, is the creation of a permanent and adequate staff for each of the Houses of Congress, with a direct representative in the office of the budget director.

In so far as the question of audit is concerned, I am inclined to agree with the provisions of the McCormick bill, and to believe that it would be most unwise at the present time to uproot the present auditing and accounting system of the Government. In this connection, may I suggest that the placing of representatives of Congress in the budget bureau would, to a certain extent, serve as an additional check upon improper expenditures.

And finally, I desire to join all of the other witnesses that have appeared before you in urging that to make these contemplated forms effective, the rules of the House and Senate must be amended. The following changes, which have already been, I believe, submitted to you, meet our approval, and we urge their adoption:

(1) That the budget, as submitted by the Executive, shall be considered by single committees of the House and Senate.

(2) That a definite time be set aside in each chamber for the discussion of the report of the single committee, such report shall show in parallel columns the executive budget and changes recommended by the committee, with the reasons therefor.

(3) That no legislative rider shall be attached to any appropriation bill and no appropriation rider shall be attached to any legislative bill.

(4) That no private bill for the expenditure of money shall be in order until after the respective chamber has acted upon the Executive budget and the report

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of its single appropriation committee, and unless it provides the funds for financing the appropriation called for in such private bill.

(5) That a joint committee from each chamber shall be appointed to follow the expenditures of the executive departments and the money granted by Congress, with the power and duty to examine, review, and criticize every item of expenditure made, and to report to Congress annually, and at such other times as Congress, or any committee thereof, may demand.

(6) That cabinet officers shall be given the privilege of the floor in both chambers, and be required to appear before the committee of the whole in either chamber whenever necessary, for the purpose of explaining or defending their estimates as contained in the President's budget.

I take it that the general principles underlying a sound budget system are so well known to your committee that I need not dwell on them. They are embodied in both the Good and the McCormick bills, though I think that the McCormick bill is much more thorough, and to that extent sounder than the Good bill.

In so far as the report end of the budget is concerned—that is to say the report of expenditures for the preceding fiscal year—I do not know whether you have ever considered the suggestion which I found in Willoughby's book on the budget to the effect that in so far as the reports of the departments are concerned, it would be well to require from the executive and the heads of the departments an administrative report accompanying their financial statement for the year, so that you would not have the bare figures before you, but you would have an accompanying explanatory statement showing how the money had been spent, why it was necessary to spend it, what problems had actually been overcome, what problems confronted the department in terms of work for the ensuing year, and how necessary they were.

It seems to me that you could with great advantage add that particular feature to the requirements of the reports of the departments.

Senator SIMMONS. I think that is an extremely essential feature. Nothing would be more helpful to the Congress in legislating than some such comprehensive and at the same time more or less detailed statement of that character.

Mr. MILLS. I found that suggestion. I have not found it anywhere else, but it is in Willoughby's book, and it has unquestionably come to your attention. I should be inclined to advise that.

Of course, the most important question is where are you going to place this budget bureau, under the President or under the Secretary of the Treasury. My judgment is that the logical place is under the Secretary of the Treasury. I do not believe for one minute that any bureau chief will be competent and sufficiently powerful to deal with Cabinet heads, and I do not believe for one minute that the President will ever have time to give to the great mass of details personally.

The CHAIRMAN. Senator Mills, you may be interested to learn that one of the expert accountants who appeared yesterday and who has been employed by the Government here at intervals for the last three or four years made exactly that statement—that his experience down here had taught him that nobody could face a member of the Cabinet except a member of the Cabinet.

Mr. MILLS. And, of course, the day that it became the prevailing impression that the Cabinet chief was getting the better of the bureau head, your whole system would break down, because Congress would

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then look upon the estimates with its old suspicion, feeling that they were nothing more than estimates, and that they had not been proved to bed rock, and that it was their duty to go through them with the same degree of care as they do now under the present system.

We had some experience, Senator, in New York, when I was in the legislature. We established a so-called executive budget. It was not a real executive budget, but the Governor did attempt to submit his estimates to the legislature, but we knew that those estimates had been gone over by the Governor's secretary and clerks in the Governor's office, and we knew that the Governor personally had not given them his individual attention, and when that budget came before us I happened to be a member of the finance committee, and we know that we had to treat it in exactly the same way that we used to treat the comptroller's estimates, and that is as estimates which the departments put in with the full expectation that they would be cut to the bone, so that our so-called executive budget amounted to nothing.

In the second place, if you put the budget under the President, it seems to me you would divorce two essential features of the budget. You would ask the budget director to estimate expenditures and to keep them down, and you would ask the Secretary of the Treasury to suggest the means and methods whereby those expenditures are to be met, both in his statement as regards the existing financial status of the Government, and in so far as his recommendation for future legislation is concerned.

Unless, of course, you mean to deprive him of what should be his primary function, it seems to me that, of course, those two statements must come from the same man. It seems to me that, as a business proposition, the expenditures and revenues should balance. We find they have in England. We find they have not in this country, and that no one man has been responsible for balancing them.

And looking at it from the tax viewpoint, which has interested me a good deal, it seems to me that with the increasing taxes, both in so far as our States, municipalities and Federal Government are concerned, with the adoption of very heavy direct taxes by the Federal Government, it is absolutely draining the resources of the States. I do not know how it has affected you, Senator, in Illinois, but I know what it is doing in New York, and that the time has come when the Federal Government has got to have a chief financial officer whose duty it will be to study that whole system and make recommendations to Congress with a view to——

The CHAIRMAN. You mean he must survey the field of revenue no less than that of expenditure?

Mr. MILLS. Yes sir; taking into consideration not only the needs of the Federal Government, but taking into consideration the whole tax system of the country, because in the event of conflict between the Federal Government and the State governments, the State governments are coming off a very poor second and are going to be in a very serious situation, in my judgment, in the course of the next few years.

Senator SIMMONS. Is not that at present very largely due to the fact that during the exigencies of war the Government was so hard pressed that it had to entrench more upon the province of the States

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than it will when conditions are restored to normal, or than it did before the war.

Mr. MILLS. I hope so, sir; and curb the plan steadily gaining ground even before the war, but when you deprive the States of inheritance taxes, and deprive them of further revenue from income taxes and personal-property taxes, you leave them really nothing but real estate.

The CHAIRMAN. That is the basis of all taxation for the State in Illinois.

Senator SIMMONS. What do you mean?

The CHAIRMAN. Real property, Senator. May I ask you a question, Mr. Mills? About how much was the expenditure of the State of New York increased in the decade from 1900 to 1910, or the 10 years next preceding; do you know, roughly?

Mr. MILLS. It increased, roughly, I should say, $25,000,000.

The CHAIRMAN. What is that in per cent?

Mr. MILLS. It increased, roughly, I should say, from about $50,000,000 to $85,000,000.

Subsequent to this hearing the chairman directed that a letter from Mr. Mills on this matter be printed in full in the record, as follows:)

MY DEAR SENATOR MCCORMICK: Referring to your questions at the hearing yesterday as to the increase in expenditures of the State Government of New York, the following are the correct figures:

"In the previous decade, 1900 to 1910, expenditures increased from $24,046,897.97 to $38,234,689.31, or 59 per cent.

"In the five years, 1910 to 1915, expenditures increased from $38,234,689.31 to $57,033,791.35, or 49.2 per cent.

"In the five years, 1915 to 1919, expenditures increased from $57,033,791.35 to $78,341,313.01, or 37.3 per cent.

"The appropriations made by the legislature of 1919 totaled $95,868,363.97, an increase of 22.3 per cent over the expenditures for the fiscal year ended June 30, 1919, while the requests for appropriations to be made by the 1920 legislature total $141,479,083.51, or an increase of 47.5 per cent."

Very truly, yours,

OGDEN L. MILLS.

Senator SIMMONS. The expenses of the States are increasing and have been increasing more rapidly than those of the Government, if you will eliminate the extraordinary war expenses.

The CHAIRMAN. I think that is true, Senator. In Illinois, while our gross expenditure is not equal to this, the increase during the decade 1900–1910 was about 200 per cent, exclusive of the financial ventures of the municipalities, which, of course, are only limited by the constitution of the State.

Mr. MILLS. Well, I was thinking more of from 1905 or 1906 to 1914. If you go back to 1900, I think the increase was 100 per cent. We jumped from about $25,000,000 to $50,000,000 in that decade. Of course, since then we have gone up very rapidly, Senator, because of our expenditures on roads.

Senator SIMMONS. That has been the big item of State expenditures in most of the States in recent years, roads, I assume.

Mr. MILLS. That and our State institutions.

Senator SIMMONS. Yes; education.

Mr. MILLS. We are spending now $7,000,000 a year on our roads, and that, or course, is exclusive of the interest on the bonded indebtedness issued to build the roads. So that in financing, if you follow the plan of the McCormick bill, I have in mind making the Secretary of the Treasury a real fiscal officer.

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The CHAIRMAN. A minister of finance?

Mr. MILLS. A real minister of finance.

I took up with Senator McCormick informally the question of whether these budget officers that you provide for in each department should not really be appointed by the budget director, and not by the head of the department, the idea being that when he is appointed by the head of the department he is bound to conform to the wishes of his superior, and while he would be very convenient to the department, he would not be in any sense a check on them when they prepare their estimates for appropriations. If he is appointed by your budget director he would be the eyes of that director throughout the year. He would see how the department was functioning, he would be in direct contact with them, and he would be in a position, by reason of being on the ground, to furnish direct evidence as to whether certain items were or were not necessary.

Senator SIMMONS. Well, if you allow the head of this bureau to appoint his help independently of the Secretary of the department, you might bring about some conflict. As a matter of fact, in other bureaus and commissions like this, the Internal Revenue Service and the Census Bureau, the Director and the Commissioner appoint their clerks, but subject to the approval of the Secretary. His approval, however, is always given.

The CHAIRMAN. I would suggest to Senator Mills that while this bill which I ventured to introduce provides that each Cabinet head shall appoint his own fiscal officer, under section 3 there are 10 deputies really of the director of the budget, who would be his representatives in conferring with the fiscal representatives of the departments on the items of the proposed estimates. It seems to me that if we are to demand of the members of the Cabinet a true revision of their estimates such as they have been making now, Senator Simmons, they must have some subordinate whose responsibility it must be to revise those estimates in their bureaus. If one of the Assistant Secretaries of of State is given that responsibility by the Secretary, he has got other responsibilities which militate against his being an effective watchdog for the Secretary. I can not help but feel that the department head and the director of the budget each should have a deputy revising these expenditures.

Mr. MILLS. Well, in making that suggestion what I had in mind was what you might call a field man, as contrasted with an office man in the office of the director of the budget.

The CHAIRMAN. I know that follows the British analogy more closely than the provisions of my bill; that is true.

Mr. MILLS. It seemed also to me that it might be well for each House of Congress to have its representative in the office of the budget director, who could act as an adviser of the House and Senate committees when the budget came before them for consideration. I base that suggestion again on State experience, where the finance committee of the senate spent most of its time going over details which some one else should have covered for them. The whole question of whether a few employees should be added to the pay roll of a department, or whether the salaries of stenographers should be increased, should not be considered by the members of the most important committee of the legislature as a matter of daily routine.

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Senator SIMMONS. You mean this expert should be a part of the force of the budget system?

Mr. MILLS. Technically, yes, sir; but as a practical matter those two men, or more, if necessary, would really be representative of Congress, and they would form an expert staff on which the Houses of Congress would rely in so far as details were concerned, leaving to the members of the committee the problem of what they should do in certain cases of major importance. This point has not been covered, as far as I can observe, by the gentlemen who have appeared before you who have advocated the British system, because in the main they have been inclined to regard the budget as more or less final, in so far as activities are concerned, when it comes before the legislative body.

The CHAIRMAN. Those are the academic gentlemen to whom you refer? You do not mean the men who have had actual experience in public finance?

Mr. MILLS. No; I mean the academic gentlemen. I can not recall now all the gentlemen who sat in on our New York constitutional convention and who advocated that kind of budget and wanted to deprive the legislature of that power to raise any item.

The CHAIRMAN. And so insured the defeat of the new constitution?

Mr. MILLS. Well, it helped. I think the way to meet that situation—and it is a real evil if you are going to swamp the members of these committees with details, because they will lose their effectiveness—is to provide for a permanent staff in the organization of this budget officer, so they will be familiar with the way the budget was made up.

Senator SIMMONS. Well, as chairman of the Finance Committee during the last six years, I felt very acutely the necessity of some expert force attached to the Finance Committee which could do the detail work and at all times supply the committee and its members with information that they could not possibly get except by long delving into documents and statistics. I think that is a very excellent idea, but I think that force ought to be attached to the revenue committees of the House.

Mr. MILLS. Yes, sir; but I would give them a representative in the office of the director of the budget.

Senator SIMMONS. They had a representative there, but it ought primarily to be a body under the control of the three committees—the Committee on Ways and Means, the Finance Committee, and the Appropriations Committee. Those three committees, I think, ought to have this expert force. In the preparation of these revenue bills we had to have a force of that sort, and we got them by the Treasury Department assigning or detailing to us certain of their force. They stayed with us the whole time, and I do not see how it would have been possible for us to have formulated that legislation without the help of those men.

The CHAIRMAN. Senator, do you think it would be possible to organize a permanent force of that sort for the service of Congress, which would not be changed as regards its general personnel from year to year?

Senator SIMMONS. Well, I do not know that we would need a force of large size, but I believe that so far as the appropriations committee is concerned, Congress would be disposed, if it established a force of

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that sort, to continue it permanently, because that committee at every Congress must pass a general bill covering all the expenditures of the Government. Now, with reference to the Finance Committee and the Ways and Means Committee, except under exceptional circumstances, such as we have just been through, they may not have to pass a bill or any kind of legislation affecting revenues for a long period of years.

For instance, between the two revisions that we have had of the tariff during this century, there was a lapse from 1909 to 1913 when the Finance Committee had no legislation of that sort to deal with at all. You probably would not want, and Congress probably would not stand, for a permanent organization of this sort under those conditions, but it would, I think, wherever the situation made it necessary, stand for a temporary organization of that character.

Mr. MILLS. Of course, the scheme which I have in mind is to establish a direct touch between Congress and your budget chief by having these representatives there, and then establishing a direct connection with the departments by having him appoint your so-called budget officers in the departments. That establishes a complete chain, in so far as furnishing information to Congress is concerned, through the year, not just when they are studying and considering appropriation measures.

In so far as the question of an audit is concerned, I am inclined to agree with the provisions of your bill, Senator, that it would be unwise at present to attempt to extend its operations as the Good bill contemplates.

The CHAIRMAN. That is Secretary Glass's judgment, with which I agree, that there ought to be a revision of the audit system, but it is too vast a subject to deal with as an appendix of this problem of the estimates.

Mr. MILLS. And I suggest in this connection that the placing of these representatives of Congress that we have been talking about in the bureau would to a certain extent serve as an additional check upon improper expenditures, and finally I join with the other witnesses in recommending certain specific changes, in so far as the rules of the House and Senate are concerned. They have already been submitted to you, I understand, by other witnesses. I believe that the budget, as submitted by the Executive, should be controlled by single committees of the House and Senate. I suppose that would be the ideal proposition, and it is also practical. I suppose the best you could do would be to reduce the number of committees to two. One committee would consider appropriations and the other committee would consider ways and means.

The CHAIRMAN. That would take us back to the practice of about 1860, would it not?

Mr. MILLS. Yes; that is the practice we have in New York. It does not work well in New York, in so far as the tax end is concerned. All of the attention of the legislature is concentrated on the appropriation end. When the total is known it is usually toward the end of the session, and then we have got to consider how we are going to raise the money. Individual members devise their own tax bills. They go in, and sometimes they are passed without much consideration, and the result has been in New York that we have got a real patchwork, in so far as a tax system is concerned. Of

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course, if you get this budget, your Committee on Ways and Means, or your Finance Committee of the Senate, can use the budget as a working basis for its revenue measures, but, of course, if the two committees could sit together as a joint committee before the appropriation bill is finally reported, and before the new revenue measures are reported, so that they could be reported together and form a composite picture, it would be really a great improvement.

Senator SIMMONS. You can not altogether compare our system with the State systems with reference to the raising of revenue. In the States you make a new levy every year.

Mr. MILLS. Yes.

Senator SIMMONS. They do in my State, and I imagine they do in most of the other States.

Mr. MILLS. Yes; we do in New York.

Senator SIMMONS. You first there decide how much revenue you have got to have, and then your finance committee makes a new levy on such property as the State imposes taxes upon. We do not do that here. We pass a general revenue bill. As long as that bill, which is permanent in character, raises sufficient revenue, we do not change it. If it is apparent that the revenue derived from the application of that measure will not be adequate, then we have to find some new source of revenue, either by increasing old rates, or establishing new objects of taxation. So that we do not have to revise our revenue laws here annually or during every Congress. Frequently a revenue bill will be sufficient to meet the expenditures of the Government for quite a number of years.

Mr. MILLS. That has been so in the past, Senator. Is it true to-day, or is it going to be true?

Senator SIMMONS. It is not likely to be true to the same extent, and yet the measure we have now would be sufficient to raise—I do not attempt to say definitely—but two or three billion dollars. That is as much as we are likely to need under normal conditions, but some of these taxes we can not stand, you know. There has got to be a cutting down.

Mr. MILLS, I say amen to that. The second recommendation is that a definite time be set aside in each chamber for the discussion of the report of the single committee, such report to show in parallel columns the executive budget, with the changes recommended by the committee, and the reasons therefor.

Third. That no legislative rider shall be attached to any appropriation bill, and no appropriation rider shall be attached to any legislative bill.

Fourth. That no private bill for the expenditure of money shall be in order until after the respective chambers have acted upon the executive budget and the report of its single committee, and until it provides the funds for financing the appropriation called for in such private bill.

The CHAIRMAN. Will you introduce the word "appropriating" after the word "single"?

Mr. MILLS. "That no private bill for the expenditure of money shall be in order until after the respective chambers have acted upon the executive budget and the report of its single committee."

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The CHAIRMAN. You do not say what single committee. It might be a single Judiciary Committee. I presume you mean a consolidated appropriations committee?

Mr. MILLS. Yes.

Fifth. That a joint committee from each chamber shall be appointed to follow the expenditures of the executive departments and the money granted by Congress——

The CHAIRMAN. When you say there each chamber, does that mean a committee representative of both chambers, a joint committee of the House and Senate?

Mr. MILLS. A joint committee of the House and Senate. That a joint committee from each chamber shall be appointed to follow the expenditures of the executive departments and the money granted by Congress, with the power and duty to examine, review, and criticize every item of expenditure made, and to report to Congress annually and at such other times as Congress or any committee thereof may demand.

The CHAIRMAN. You mean a joint committee of the House and Senate, then, on expenditure and audit?

Mr. MILLS. Yes.

Senator SIMMONS. We have a great many of those little committees now.

The CHAIRMAN. I am chairman of one, but I do not know the names of my colleagues.

Senator SIMMONS. We have one for practically every department, and none of them ever meets.

The CHAIRMAN. Do they go back to the post-bellum period when they were prying into everything?

Senator SIMMONS. They were here when I came 19 years ago.

The CHAIRMAN. I am under the impression that at the time they were bedeviling Johnson they appointed these committees to comb the departments.

Senator SIMMONS. That was the theory, but they never practiced it.

Mr. MILLS. That committee will fit in with the plan you were discussing, Senator, because your so-called auditing body would report to that committee.

The CHAIRMAN. Yes.

Mr. MILLS. Finally, that Cabinet officers shall be given the privilege of the floor in both chambers, and be required to appear before the committee of the whole in either chamber whenever necessary, for the purpose of explaining or defending their estimates as contained in the Executive budget.

That, I know, is subject to a great deal of argument.

Senator SIMMONS. It would be wonderfully helpful if the members of the Cabinet, like under the English system, should also be members of the two bodies, but that is impracticable, I expect, under our system.

The CHAIRMAN. In the Argentine, I understand that while the cabinet can not sit as members or vote upon measures intimately affecting their departments, they have to appear, as you suggest, and answer questions and defend those bills.

Mr. MILLS. The argument has always been used against it on the ground that it gives the Executive Department too much power, and

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the whole trouble was that the Executive power was being increased.

The CHAIRMAN. I believe the result would be the opposite.

Mr. MILLS. I firmly believe that the result would be the opposite.

Senator SIMMONS. How would you divide them up between the two Houses?

Mr. MILLS. I would not. They would have to appear, if summoned by either House, on these pending measures.

Senator SIMMONS. Yes; I agree with you about that proposition, about the right to appear, and giving the right to Congress to summons them, but when I asked that question I was thinking about the membership.

The CHAIRMAN. The French ministers are at liberty to appear in either chamber, and their system is different from the British in that respect. So Clemenceau is a Senator, I forget whether he is or not.

Senator SIMMONS. He declined reelection, but he was a Senator, under their system, has to be a Senator and vote as a Senator, and is at liberty to appear in the Chamber of Deputies in his ministerial capacity.

Mr. MILLS. And a minister, I think, can even belong to either chamber in France.

The CHAIRMAN. Yes, but that is very rare.

Mr. MILLS. That is very rare, but he can under their constitution.

The CHAIRMAN. Yes; Gen. Lyautey, who was momentarily Minister of War and the Governor of Morocco, appeared in the chamber, although he was not a member.

Mr. MILLS. Senator, that is all I have to say, and I thank you for your courtesy in hearing me.

(Whereupon the committee adjourned subject to the call of the chairman.)

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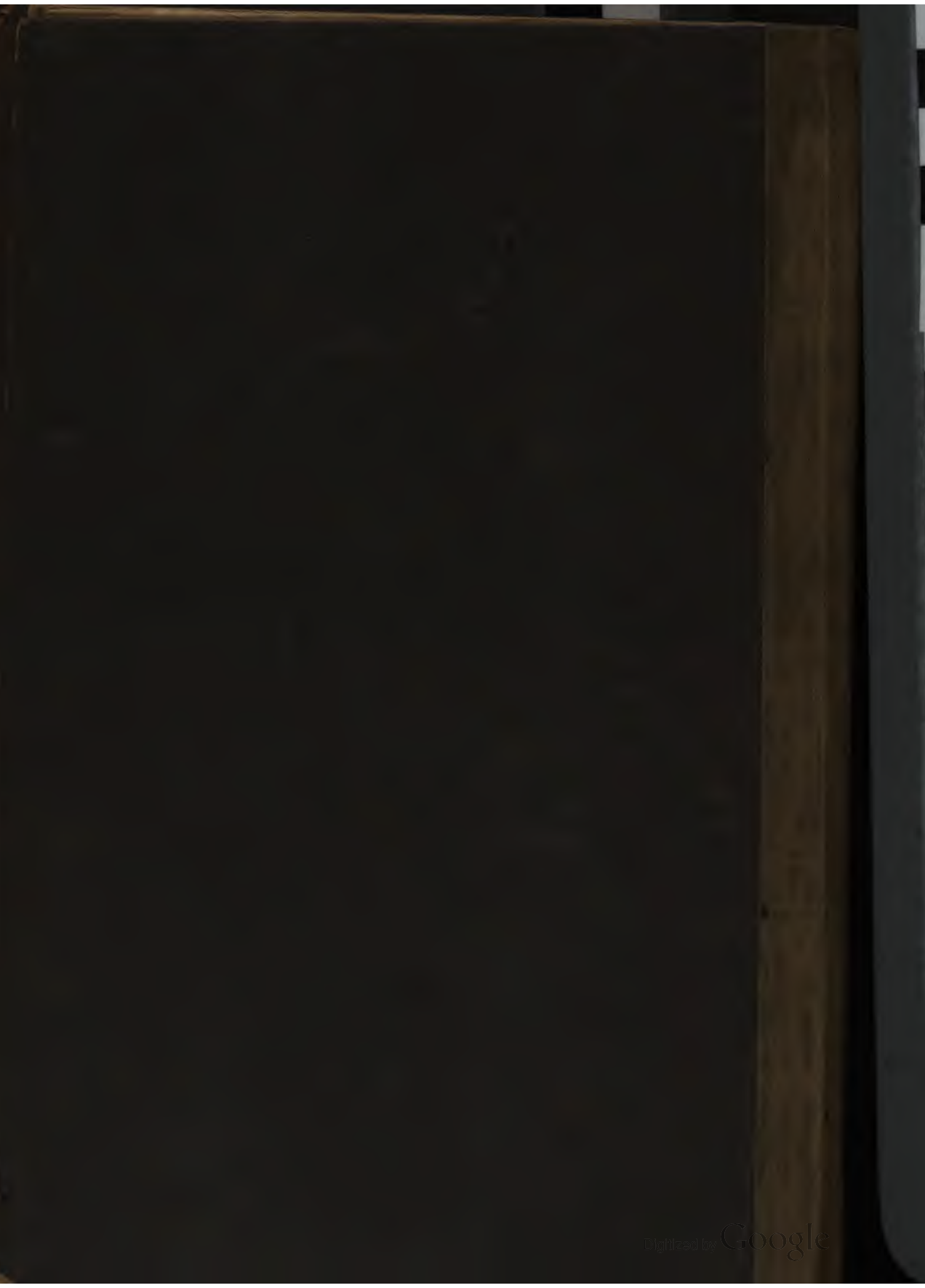
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